

**DHH**

Sector: Cloud Computing &amp; Internet Access Services



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# Enjoying very happy moments

DHH is a tech group that provides integrated cloud & internet access services solutions to about 120.000+ clients across Italy, Switzerland and southeast Europe (the so-called “Adriatic Sea area”), where expected growth is higher thanks to current lower digital penetration.

## FY22: VoP upwards approx. +50% y/y

DHH FY22 results are brilliant, slightly higher compared to our estimates if we consider figures gross of non-recurring costs (mainly non-monetary charges related to Stock Option Plan 22 – 25).

Key messages we get from results are the following:

- ◆ Value of Production strongly up, ca. +49.6% y/y, thanks to 11% organic growth and to the 6-months consolidation of recently acquired Connesi;
- ◆ Recurring revenues at 94% of total, with a good diversification across PaaS, IaaS, Internet Access, and other services;
- ◆ Adjusted EBITDA up +24.8% y/y, partly burdened by the surge in energy costs. Adj. EBITDA margin in excess of 30%;
- ◆ Cash conversion (OpFCF b.t. / Adj. EBITDA) in the 80% region;
- ◆ Net Debt at ca. €6mn, after ca. €6.3mn M&A cash out.

## FY23E-24E: Higher top line, EBITDA as well

The strategy to acquire / revamp B2B premium ISPs generating upselling revenue synergies (cloud products to ISP corporate clients) is definitively bearing its fruits.

We are fine tuning our 2023E-24E estimates upwards on the back of the positive stance of the Italian subsidiaries Seeweb and Connesi, and of the Bulgarian one (Evolink). As a matter of fact, we now expect:

- ◆ Value of Production to reach €40.7mn in 2024E (27.1% CAGR<sub>21-24E</sub>);
- ◆ EBITDA to peak at € 12.6mn in 2024E, (EBITDA margin at ca. 31.0%);
- ◆ Positive Net Cash Position at ca. €1.0mn by 2024E year-end likely to be exploited for further M&A deals.

## Fair value per share at €22.3 (from €21.4)

Based on current market price and updated estimates, DHH is trading at ca. 7.7x-15.4x-21.6 EV/EBITDA, EV/EBIT and P/E 2023E respectively, definitively below peers' multiples.

The uptick of DHH forecasts drive the Company fair value per share at €22.3 (up from €21.4), as average of DCF model and Peers' analysis.

At fair value, the stock would trade at 10.9x EV/EBITDA 2023E.

<b>Fair Value (€)</b>	<b>22.3</b>
<b>Market Price (€) (*)</b>	<b>15.3</b>
<b>Market Cap. (€m)</b>	<b>74.9</b>

KEY FINANCIALS (€mn)	2021	2022	2023E
REVENUES	19.8	29.6	36.8
EBITDA	6.9	7.4	10.2
EBIT	3.6	2.8	5.1
NET PROFIT	3.2	0.7	2.4
EQUITY	20.0	24.1	26.8
NET FIN. POS.	-0.9	-6.0	-3.8
EPS (€)	0.65	0.15	0.49
DPS (€)	0.0	0.0	0.0

Source: DHH Group (2021-2022), Value Track (2023E)

RATIOS & MULTIPLES	2021	2022	2023E
Adj. EBITDA MARGIN (%)	36.5	30.4	30.6
Adj. EBIT MARGIN (%)	19.7	16.3	16.7
NET DEBT / EBITDA (x)	0.1	0.8	0.4
NET DEBT / EQUITY (x)	0.0	0.2	0.1
EV/SALES (x) (**)	3.7	2.7	2.1
EV/EBITDA (x) (**)	10.6	11.0	7.7
EV/EBIT (x) (**)	20.3	29.4	15.4
P/E Adj.	28.4	28.8	21.6

Source: DHH (2021-2022), Value Track (2023E)

(\*\*) EV adjusted for peripherals and treasury shares

## STOCK DATA (\*)

FAIR VALUE (€)	22.3
MARKET PRICE (€)	15.3
SHS. OUT. (m)	4.9
MARKET CAP. (€m)	74.9
FREE FLOAT (%)	23.7
AVG. -20D VOL. (#)	1,353
RIC / BBG	DHH.MI / DHH IM
52 WK RANGE	12.30-17.30

Source: Stock Market Data

(\*) Stock market price as of market open 23 March 2023



## Business Description

DHH is a tech group that provides integrated cloud & internet access services solutions to 120.000+ clients across Italy, Switzerland and southeast Europe (the so-called “Adriatic Sea area”), where expected growth is higher thanks to current lower digital penetration. Nowadays, there are nine autonomous and independent business units under management across six countries (i.e., 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	2022	2023E	2024E	2025E
<b>Total Revenues</b>	<b>29.6</b>	<b>36.8</b>	<b>40.7</b>	<b>45.1</b>
Chg. % YoY	49.6%	24.3%	10.4%	10.9%
<b>EBITDA</b>	<b>7.4</b>	<b>10.2</b>	<b>12.6</b>	<b>15.3</b>
EBITDA Margin (%)	24.9%	27.8%	31.0%	33.9%
<b>EBIT</b>	<b>2.8</b>	<b>5.1</b>	<b>7.5</b>	<b>10.0</b>
EBIT Margin (%)	9.3%	13.9%	18.3%	22.2%
<b>Net Profit</b>	<b>0.7</b>	<b>2.4</b>	<b>4.4</b>	<b>6.1</b>
Chg. % YoY	-76.7%	nm	82.8%	39.5%
<b>Adjusted Net Profit</b>	<b>2.6</b>	<b>3.5</b>	<b>4.4</b>	<b>6.1</b>
Chg. % YoY	-1.4%	33.0%	27.0%	39.5%
<b>Net Fin. Position</b>	<b>-6.0</b>	<b>-3.8</b>	<b>1.0</b>	<b>6.1</b>
Net Fin. Pos. / EBITDA (x)	0.8	0.4	nm	nm
Capex	-2.5	-5.7	-5.3	-6.3
<b>OpFCF b.t.</b>	<b>6.9</b>	<b>5.4</b>	<b>7.5</b>	<b>8.8</b>
OpFCF b.t. as % of EBITDA	92.8%	53.2%	59.6%	57.3%

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

## Investment case

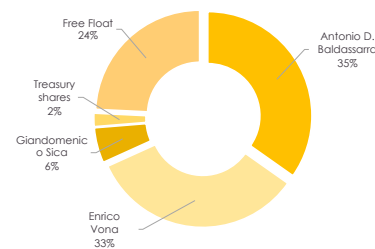
### Strengths / Opportunities

- ◆ 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

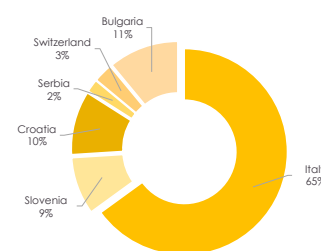
- ◆ Much lower size if compared to US tech giants
- ◆ Highly competitive market with several players

## Shareholders structure (2022)



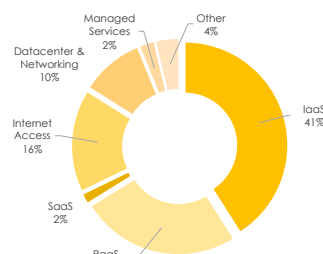
Source: DHH Group

## Sales b.down by country (2022)



Source: DHH Group

## Sales b.down by segment (2022)



Source: DHH Group

## Stock multiples @ €22.3 Fair Value

	2023E	2024E
EV / SALES (x)	3.0	2.6
EV / EBITDA (x)	10.9	8.5
EV / EBIT (x)	21.8	14.3
EV / Cap. Empl. (x)	3.7	3.5
OpFCF Yield (%)	4.9	7.0
P / E (x)	31.5	24.8
P / BV (x)	4.5	3.8
Cash Div. Yield. (%)	0.0	0.0

Source: Value Track

## DHH at a glance

### Corporate profile and business footprint

DHH is a leading technology group focused on the **provisioning of integrated cloud & internet access services** to about 120.000+ corporate and professional customers in Italy, Switzerland, and Southeast Europe – the so-called “Adriatic Sea area”, i.e., a geographic area where expected growth rates are higher thanks to current lower digital penetration.

With **2022A Value of Production and EBITDA Adjusted at ca. €29.6mn and €9.0mn** respectively, DHH boasts approx. **94% of recurring revenue** supplied with a one-to-many model where contracted customers automatically pay for their subscription.

Reinvesting the sound cash flow generation in value accretive M&A deals is cornerstone of DHH strategy and is allowing the group to boost its growth rate. We calculate a ca. **39% VoP CAGR<sub>17-22</sub>**.

Worthy to note, DHH has a peculiar approach towards the companies it acquires. Indeed, it maintains them relatively independent, while sharing best practices (offer portfolio, technological innovations, intra-group synergies, go-to-market strategy, financial planning and control) thus building an ecosystem in which tech-entrepreneurs can innovate, share, create value together.

### Industrial and commercial features

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

- ◆ **Top quality full offer portfolio of products / solutions**, from more sophisticated and tailor-made solutions (cloud server, foundation server, ready to use IoT products) to more commoditized products (hosting, domain registration, housing & colocation and so on);
- ◆ **Ecosystem of independent businesses**, with individual organization & management team for each legal entity, sharing technological know-how, best practices and bottom-up synergies;
- ◆ **Extensive proprietary physical and network infrastructures**, connected to most important exchange points;
- ◆ **Subscription-based business model**, allowing higher customer retention and auto-renewal subscription.

### Offer portfolio by segment / application

DHH currently provides products and services that can be clustered into five segments/applications:

- ◆ **Infrastructure as a service (IaaS)**, 41% of VoP in FY22 (50% in FY21), i.e. cloud computing products such as Cloud Server or Virtual Private Cloud, needed to run large scale web infrastructure and to increase the calculation performance in AI, Machine Learning, Deep Learning;
- ◆ **Platform as a service (PaaS)**, 25% of VoP in FY22 (39% in FY21), i.e. hosting products such as Web Hosting or Object Storage, needed to publish, store, and archive websites, documents and media files;
- ◆ **Premium B2B internet access**: 16% of VoP in FY22 (segment added in the FY22), i.e. internet connectivity services based on Fiber, FWA, mixed technologies, enabling the internet access, mostly to B2B customers, such as professionals and corporates;
- ◆ **Datacenter & Networking**, 10% of VoP in FY22 (9% in FY21), i.e. physical hosting of the clients' servers in well protected data centers, redundant network connection and DoS protection;
- ◆ **Other services**, 8% of VoP in FY22 (2% in FY21), as managed services, SaaS and so on.

## FY22: VoP upwards approx. +50% y/y

DHH FY22 results are brilliant, slightly higher compared to our estimates if we take into account figures gross of non-recurring costs (mainly non-monetary charges related to Stock Option Plan 22 – 25).

Key messages we get from results are the following:

- ◆ **Value of Production was strongly up, ca. +49.6% y/y**, thanks to 11% organic growth and to the consolidation for 6-months of the recently acquired Connesi. **Recurring revenues** stood at **94%** of total;
- ◆ **Adjusted EBITDA up +24.8% y/y**, partially burdened by the surge in energy costs. **EBITDA margin** stands in **excess of 30%**;
- ◆ **Adjusted EBIT up ca. +18.4% y/y**, impacted by ca. €1.3mn higher D&A charges mainly related to IFRS16 accounting of IRUs;
- ◆ **Net Debt stands at ca. €6mn**, well under control (Net Debt / EBITDA Adj. at ca. 0,7x as of the end of Dec' 2022), despite ca. €6.3mn M&A cash out. **OpFCF / EBITDA** is an outstanding ~ **80%**.

### DHH: 2021 – 2022 Key Financial Items

(€mn)	2021	2022A	y/y (%)	2022E
Value of Production	19.8	29.6	49.6%	28.3
Adj. EBITDA (*)	7.2	9.0	24.8%	8.3
Adj. EBIT (*)	3.9	4.6	18.4%	4.2
Adj. Net Profit (*)	2.6	2.6	-1.4%	2.8
<b>Net Fin. Position [Net debt (-) / Cash (+)]</b>	<b>-0.9</b>	<b>-6.0</b>	<b>-5.1</b>	<b>-5.4</b>

Source: DHH, Value Track analysis, (\*) Gross of Stock Option Plan charge and of any other extraordinary costs

### VoP up +50% y/y l-f-l, above our expectation

Value of Production came in at €29.6mn, €1.3mn above our 2022E expectation (upward of +4.6% to our estimates), with a 49.6% y/y growth rate (+11% organic growth + Connesi 6 months consolidation effect). We highlight a very good performance in Italy, Croatia and Bulgaria, +42.0%, +14.6% and n.m. respectively y/y, led by double digit growth in Connesi, Seeweb, Evolink.

In terms of breakdown by segment, it's worthy to note the good diversification across PaaS, IaaS, Internet Access, and other services.

### DHH: 2022 Revenue from Sales by segment and by geography



Source: Value Track Analysis

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

Adjusted EBITDA was ca. 8% higher than our estimates, up “only” +24.8% y/y at €9.0mn, as top line extremely positive performance was partially offset by the surge in energy costs that impacted datacenter activities. Remedies were put in place, but the effect was material only in 2H22.

That said, we note that FY22 Reported EBITDA (€7.4mn, +6.4% y/y) has been affected by €1.1mn non-recurring and non-monetary charge related to the 2022-25 Stock Option plan.

Report EBIT at €2.8mn was affected not only by above mentioned stock option charges but also by ca. €0.2mn of impairments related to some start-ups and by higher D&A charges (at ca. €4.6mn compared to €3.3mn of FY21). Adjusted for one-off items, EBIT stood at €4.8mn (+24.2% y/y).

Net Profit stood at €0.7mn, down by ca. -76.7% y/y, merely due to a higher tax burden with respect to FY21. Indeed, we remind that taxes of 2021 had a positive impact of €0.8mn due to the deferred tax assets as the differences between the carrying amount of trademarks in the financial statements and the corresponding values recognized for the consolidated one.

#### DHH: Income Statement 2021 – 2022

(€ mn)	2021	2022	y/y (%)
<b>Revenue from Sales</b>	<b>19.6</b>	<b>28.6</b>	<b>46.4%</b>
Other Revenues	0.2	1.0 (*)	n.m.
<b>Total Revenues</b>	<b>19.8</b>	<b>29.6</b>	<b>49.6%</b>
COGS	-8.5	-16.0	88.3%
<b>Gross Profit</b>	<b>11.3</b>	<b>13.6</b>	<b>20.6%</b>
Labour costs	-3.8	-5.6	48.0%
Other Opex	-0.6	-0.6	10.4%
<b>EBITDA</b>	<b>6.9</b>	<b>7.4</b>	<b>6.4%</b>
D&A	-3.3	-4.6	39.1%
<b>EBIT</b>	<b>3.6</b>	<b>2.8</b>	<b>-23.8%</b>
Net Financial Charges	-0.2	-0.4	n.m.
Taxes	-0.3	-1.5	n.m.
Minorities	0.0	-0.1	n.m.
<b>Net Profit</b>	<b>3.2</b>	<b>0.7</b>	<b>-76.7%</b>
<b>Adj. EBITDA</b>	<b>7.2</b>	<b>9.0</b>	<b>24.8%</b>
Adj. EBITDA margin (%)	36.5%	30.4%	
<b>Adj. EBIT</b>	<b>3.9</b>	<b>4.8</b>	<b>24.2%</b>
Adj. EBIT margin (%)	19.7%	16.3%	
<b>Adj. Net Profit</b>	<b>2.6</b>	<b>2.6</b>	<b>-1.0%</b>

Source: Company figures, Value Track Analysis, (\*) Mainly referred to government grants for energy costs

## Balance Sheet

As for the Balance Sheet is concerned, we note that the Net Debt Position came out at €6.0mn – with a liquidity of ca. €10.9mn – compared to our Net Debt Position forecast at €5.4mn.

Net Financial Position decreased by approx. €5.1mn y/y, mainly driven by: i) Bank loan of €5.9mn used for the acquisition of Connesi; ii) Ca. €800k cash-out due to acquisition of 45% Warian stake; iii) Lease debts related to IFRS16 of €4.3mn, while as at December 2021 lease debt related to IFRS 16 was €5.2mn; iv) The impact of investments in infrastructures.

As far as Net Working Capital is concerned, at the end of FY22 it stood at -8.9% on VoP, as result of an y/y increase of about €2.5mn in trade receivables (ca. €1.5mn related to Connesi) and about €3.0mn in trade payables (ca. €2.2mn related to Connesi).

At the Net Fixed Assets level, there was a sharp upsurge in tangible assets vs. FY21, from €1.8mn to approx. €11.2mn, related to Connesi acquisition and to a higher value attributed to fibre optic equipment net of depreciation.

Total Capital Employed at €30.2mn (approx. €9.3mn higher than 2021 year-end) takes into account all these changes.

### DHH Group: Balance Sheet 2021 – 1H22 – 2022

(€ mn)	2021	1H22	2022
<b>Net Working Capital</b>	<b>-1.5</b>	<b>-1.2</b>	<b>-2.6</b>
Inventories	0.0	0.0	0.4
Total Receivables	3.9	5.5	7.0
Total Payables	-5.4	-6.7	-10.1
<b>Net Fixed Assets</b>	<b>23.9</b>	<b>22.7</b>	<b>35.1</b>
Goodwill	9.7	9.6	10.5
Tangibles & Intangibles (ex-Goodwill)	12.0	10.8	21.3
Financial assets	0.8	0.8	2.0
Other net assets	1.5	1.5	1.5
<b>Provisions</b>	<b>1.5</b>	<b>1.5</b>	<b>2.4</b>
<b>Total Capital Employed</b>	<b>20.9</b>	<b>20.0</b>	<b>30.2</b>
<b>Group Net Equity</b>	<b>20.0</b>	<b>20.9</b>	<b>24.1</b>
<b>Net Financial Position [Net debt (-) / Cash (+)]</b>	<b>-0.9</b>	<b>0.9</b>	<b>-6.0</b>

Source: Company figures, Value Track Analysis

## Cash Flow Statement

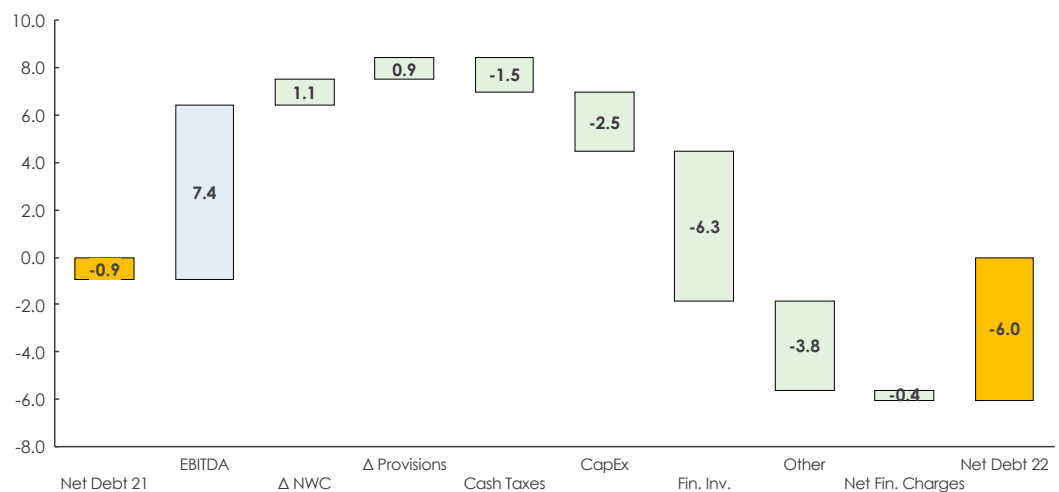
Net Financial Position worsened by approx. €5.1mn y/y as a direct and indirect result of the M&A activity finalized in 2022. Indeed, the performance at the Operating Cash Flow level was very positive, with some €6.9mn generated by operations, thus an **OpFCF b.t. conversion rate of around 80%**.

### DHH Group: Cash Flow Statement 2021 – 2022

(€mn)	2021	2022
<b>EBITDA</b>	<b>6.9</b>	<b>7.4</b>
Operating WC requirements	-0.8	1.1
Capex (inc. RoU)	-3.5	-2.5
Change in provisions	0.0	0.9
<b>OpFCF b.t.</b>	<b>2.7</b>	<b>6.9</b>
Cash Taxes	-0.3	-1.5
<b>OpFCF a.t.</b>	<b>2.4</b>	<b>5.4</b>
Financial Investments / Other	-4.0	-6.3
Net Financial charges	-0.2	-0.4
Dividends paid	0.0	0.0
Other	-0.7	-3.8
<b>Change in Net Fin. Position</b>	<b>-2.4</b>	<b>-5.1</b>

Source: Company figures, Value Track Analysis

### DHH: Net Financial Position bridge 2021 – 22



Source: Value Track Analysis

## 2023E-24E growth strategy

In 2023E-24E we expect DHH to capitalize on the initiatives put in place in the latest couple of years (upselling, entrance into B2B ISP market, acquisition of network infrastructure-based companies, and so on) and to keep growing by complementing organic growth strategies and M&A driven ones:

### Organic growth strategies

We expect DHH to keep working on marketing and product innovation:

- ◆ Increasing ARPU, through the shift towards premium products - Group strategy is aimed at expanding its value proposition, trying to provide customers with high quality products (value-added products lying a on higher price range) and granting them a satisfying experience level;
- ◆ Launching proprietary solutions to stay ahead any technological trend, with the aim of introducing innovative services and meet customers' needs.

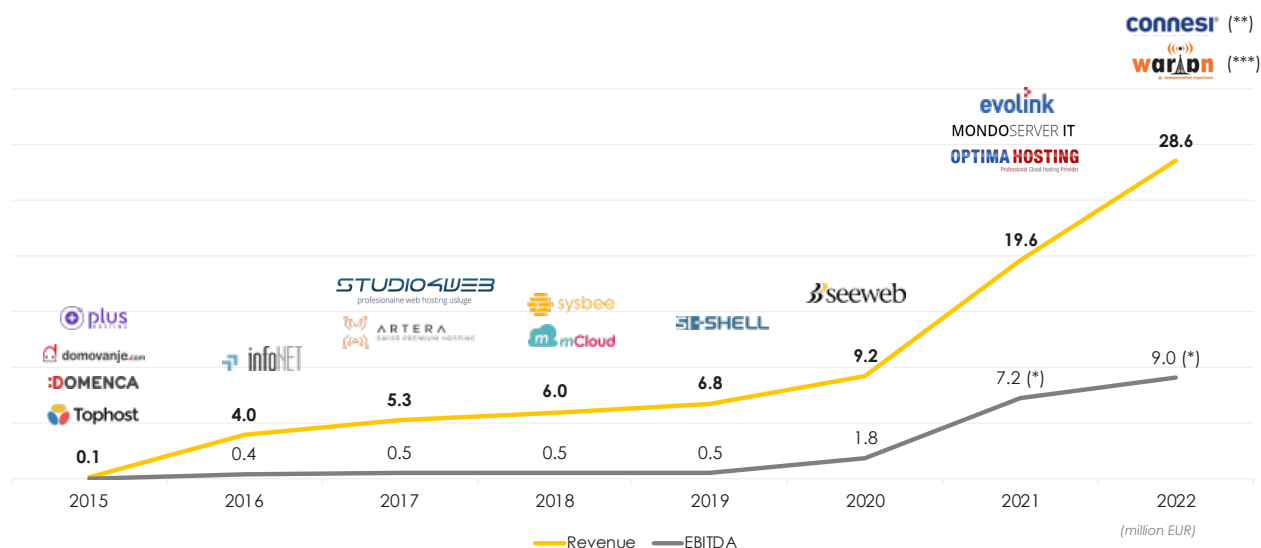
This approach should remain substantially unchanged, with all businesses (and brands) within the consolidation perimeter willing to introduce innovative services;

- ◆ Improving go to market strategy through the establishment of value partnerships with web agencies and specialized partners, system integrators or software houses that may accelerate the growth path and market penetration, thus allowing the enhancement of customer base, and the improvement of retention rates.

### M&A driven growth strategies

M&A has always been a cornerstone of DHH strategy also thank to its sound cash flow generation. Indeed, more than fifteen acquisitions were finalized both before and after the IPO.

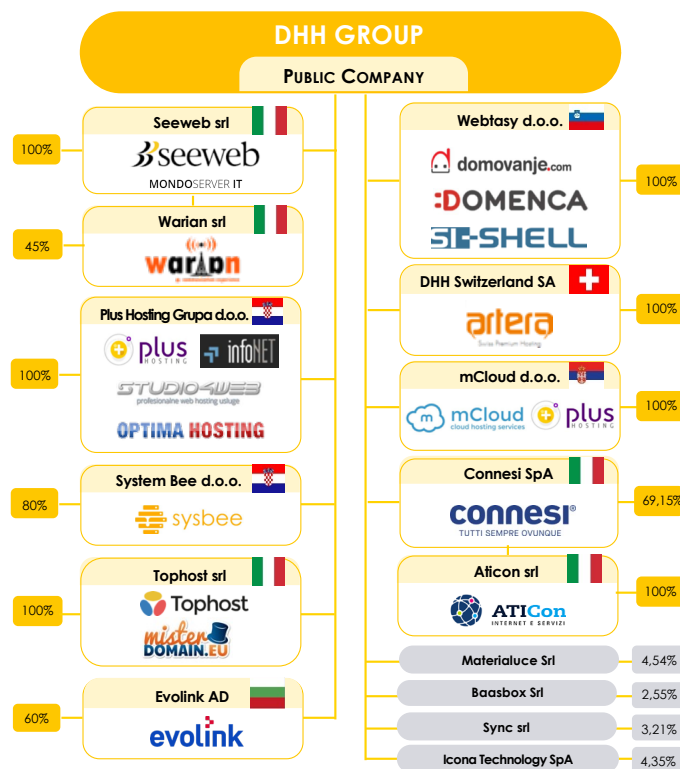
#### DHH: Well-executed buy & build strategy



Source: DHH. Please note that: (\*) FY21 and FY22 are referring to Adjusted EBITDA; (\*\*) 1) the results of Connesi are fully consolidated in DHH's financial statements starting from 1st July 2022 and there will be the full effect in 2023; 2) the results of Misterdomain are fully consolidated in DHH's financial statements starting from the acquisition date and there will be the full effect in 2023; (\*\*\*) Warian is not consolidated



## DHH: Current group structure



Source: DHH

We note that so far, DHH MA&A strategy has delivered brilliant returns, thanks to a careful approach based on:

- ◆ Proposing a fair valuation for the acquisition, not over-paying the target companies;
- ◆ Structuring a deal where the entrepreneurs have strong incentives to stay in the company after the acquisition with the goal of growing the main business KPIs: revenue, EBITDA, net profit, free cash flow;
- ◆ Cleaning-up the companies from the costs not connected to the core business, which are a constant in the world of SMEs;
- ◆ Implementing a control management system in companies, so to improve the budgeting and planning process, which is usually very weak in the SMEs.

### Focus on B2B ISPs

DHH currently boasts some €10.9mn cash pile that we expect to be utilized to continue growing by acquisition, with the focus of M&A scouting remaining on B2B premium ISPs.

Indeed, starting as of 2020, DHH has augmented its pace of growth by venturing into a new business arena, specifically the provisioning of Internet connectivity services.

This initiative aims to capitalize on the network infrastructure assets and generate upselling revenue synergies. More in particular, DHH has seized a huge potential in the “premium” B2B infrastructure-based Internet Service Providers (ISP) market, as it is becoming an important part of the cloud computing market.

## Update of 2023E-onward financial forecasts

We are revising our 2023E-24E top line and operating profitability forecasts upwards as a result of:

- ◆ Sound FY22 financial results
- ◆ Successful execution of the cloud services upselling strategy on B2B ISPs client base (e.g. Connesi);
- ◆ Impact of the repricing of services at Seeweb level.

In numbers:

- ◆ **Value of Production** – we fine tune our growth forecast by +4.7% and +6.7% in 2023E-24E;
- ◆ **Adjusted EBITDA** – revised up by ca. 5.4% and 8.1% respectively in 2023-2024E;
- ◆ **Adjusted EBIT** – revised up by ca. 1.6% and 3.6% respectively in 2023-2024E, as we expect higher D&A related to Connesi;
- ◆ **Net Financial Position** – We assume higher net debt, i.e., ca. €3.8mn in 2023E and cash positive in 2024E at ca. €1.0mn, as an effect of the lower starting point in 2022-year end and higher capex planned by Seeweb (ca. €1.5mn one off development capex in 2023) and Connesi.

We also remind that Connesi in FY22 impacted for only 6-months due to July '22 acquisition.

### DHH Group: New vs. Old estimates

(€ mn)	2023E			2024E		
	Old	New	Change	Old	New	Change
<b>Value of Production</b>	<b>35.2</b>	<b>36.8</b>	<b>4.7%</b>	<b>38.1</b>	<b>40.7</b>	<b>6.7%</b>
EBITDA	10.7	10.2	-4.5%	11.7	12.6	8.1%
EBIT	6.1	5.1	-15.8%	7.2	7.5	3.6%
Net Profit	4.0	2.4	-39.3%	4.8	4.4	-7.6%
<b>Adj. EBITDA</b>	<b>10.7</b>	<b>11.3</b>	<b>5.4%</b>	<b>11.7</b>	<b>12.6</b>	<b>8.1%</b>
<b>Adj. EBIT</b>	<b>6.1</b>	<b>6.2</b>	<b>1.6%</b>	<b>7.2</b>	<b>7.5</b>	<b>3.6%</b>
<b>Adj. Net Profit</b>	<b>4.0</b>	<b>3.5</b>	<b>-12.7%</b>	<b>4.8</b>	<b>4.4</b>	<b>-7.6%</b>
<b>Net Financial Position</b>	<b>-1.4</b>	<b>-3.8</b>	<b>-2.4</b>	<b>3.8</b>	<b>1.0</b>	<b>-2.8</b>

Source: Company figures, Value Track Analysis

That said, our new 2023E -24E forecasts can be summarized as follows:

- ◆ **Value of Production** –at €40mn in 2024E, expected to reach the €50mn threshold in the medium term;
- ◆ **EBITDA and EBIT** – operating profitability progressively increasing over the next two years with EBITDA and EBIT margin expected respectively at 31.0% and 18.3% by 2024E;
- ◆ **Working Capital** – favourable Working Capital dynamics, implying a sound operating cash conversion with EBITDA / OpFCF ratio after on average in excess of 50% over the next two years;
- ◆ **Capex** – at ca. 15% on FY23's VoP, affected by the Connesi and Seeweb's incidence (30% and 25% respectively) due to expected Seeweb one-off development investments;
- ◆ **Net Financial Position** – Net Cash Position, to peak at ~€1.0mn by 2024E year-end, likely to be exploited for further M&A deals.

**DHH Group: 2021 – 2024E P&L**

(€mn)	2021	2022	2023E	2024E
<b>Value of Production</b>	<b>19.8</b>	<b>29.6</b>	<b>36.8</b>	<b>40.7</b>
COGS	-9.1	-16.6	-20.1	-21.1
Labour costs	-3.8	-5.6	-6.5	-6.9
<b>EBITDA</b>	<b>6.9</b>	<b>7.4</b>	<b>10.2</b>	<b>12.6</b>
<i>EBITDA Margin (%)</i>	<i>35.1%</i>	<i>24.9%</i>	<i>27.8%</i>	<i>31.0%</i>
Depreciation & Amortization	-3.3	-4.6	-5.1	-5.2
<b>EBIT</b>	<b>3.6</b>	<b>2.8</b>	<b>5.1</b>	<b>7.5</b>
<i>EBIT Margin (%)</i>	<i>18.2%</i>	<i>9.3%</i>	<i>13.9%</i>	<i>18.3%</i>
Net Fin. Charges	-0.2	-0.4	-0.7	-0.6
Non-Operating Items	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>3.4</b>	<b>2.3</b>	<b>4.5</b>	<b>6.9</b>
Tax	-0.2	-1.6	-2.1	-2.5
<b>Reported Net Profit</b>	<b>3.2</b>	<b>0.7</b>	<b>2.4</b>	<b>4.4</b>
<b>Adj. EBITDA</b>	<b>7.2</b>	<b>9.0</b>	<b>11.3</b>	<b>12.6</b>
<b>Adj. EBIT</b>	<b>3.9</b>	<b>4.8</b>	<b>6.2</b>	<b>7.5</b>
<b>Adj. Net Profit</b>	<b>2.6</b>	<b>2.6</b>	<b>3.5</b>	<b>4.4</b>

Source: DHH, Value Track Analysis

**DHH Group: 2021 – 2024E Balance Sheet**

(€mn)	2021	2022	2023E	2024E
Net Fixed Assets	<b>23.9</b>	<b>35.1</b>	<b>36.4</b>	<b>36.6</b>
Net Working Capital	-1.5	-2.6	-3.5	-3.7
Severance Pay and Other Funds	1.5	2.4	2.4	2.4
<b>Total Capital Employed</b>	<b>20.9</b>	<b>30.2</b>	<b>30.5</b>	<b>30.5</b>
<b>Group Net Equity</b>	<b>20.0</b>	<b>24.1</b>	<b>26.8</b>	<b>31.4</b>
<b>Net Fin. Position</b>	<b>-0.9</b>	<b>-6.0</b>	<b>-3.8</b>	<b>1.0</b>

Source: DHH, Value Track Analysis

**DHH Group: 2021 – 2024E Cash Flow Statement**

(€mn)	2021	2022	2023E	2024E
<b>EBITDA</b>	<b>6.9</b>	<b>7.4</b>	<b>10.2</b>	<b>12.6</b>
Operating WC requirements	-0.8	1.1	0.9	0.2
Capex (inc. RoU)	-3.5	-2.5	-5.7	-5.3
Change in provisions	0.0	0.9	0.0	0.0
<b>OpFCF b.t.</b>	<b>2.7</b>	<b>6.9</b>	<b>5.4</b>	<b>7.5</b>
Cash Taxes	-0.3	-1.5	-1.8	-2.2
<b>OpFCF a.t.</b>	<b>2.4</b>	<b>5.4</b>	<b>3.6</b>	<b>5.3</b>
Financial Investments / Other	-4.7	-10.1	-0.7	0.0
Net Financial charges	-0.2	-0.4	-0.7	-0.6
Dividends paid	0.0	0.0	0.0	0.0
<b>Change in Net Fin. Position</b>	<b>-2.4</b>	<b>-5.1</b>	<b>2.3</b>	<b>4.7</b>

Source: DHH, Value Track Analysis

## Investment case & Valuation update

Based on revised estimates, we update our **fair value per share at €22.3** (up from €21.4), as simple average of: i) DCF model (€24.1); ii) Peers' analysis (€20.4).

At fair value DHH would trade at 10.9x, 21.8x, 31.5x EV/EBITDA, EV/EBIT and P/E 2023E respectively.

### Peers' analysis

Based on 2023E-24E financial projections, and taking into consideration the median EV/EBITDA and EV/EBIT of peers, i.e., a cluster of companies operating in the cloud & internet access space meanwhile exposed to local or international capital markets, we calculate that at current market price DHH is trading at discount vs. peers, i.e. 7.7x-15.4x-21.6x EV/EBITDA, EV/EBIT and P/E 2023E, respectively.

We view DHH discount vs. peers as too wide supported by the following key points:

- ◆ **Strong revenue visibility** – Subscription business model featured by ~94% recurring revenues;
- ◆ **Best-in-class profitability** – EBITDA Adj. margin in excess of 30%;
- ◆ **Sound EBITDA cash conversion**, benefitting from being paid spot and then delivering its solutions in a subsequent stage;
- ◆ **M&A value-creation capabilities**, generating an average total ROI close to 200%.

Assuming DHH to trade in line with peers would lead to **€20.4 fair equity valuation p/s.**

### DHH: Peers' stock trading multiples

Company	EV / EBITDA (x)		EV / EBIT (x)		P/E (x)	
	2023E	2024E	2023E	2024E	2023E	2024E
Growens	10.9	8.7	nm	nm	nm	nm
WIIT	15.0	13.0	15.7	7.5	31.8	25.0
Reevo	10.2	7.5	nm	23.2	24.9	20.1
Unidata	5.7	5.4	14.8	11.2	8.1	7.5
Intred	9.1	8.0	7.5	7.3	20.4	18.5
<b>Peer's Italian - Average</b>	<b>10.2</b>	<b>8.5</b>	<b>12.6</b>	<b>12.3</b>	<b>21.3</b>	<b>17.8</b>
Beeks Financial Cloud	9.2	7.1	22.9	18.2	30.0	24.0
IONOS	8.7	7.5	14.8	12.2	24.7	18.8
Gigas Hosting	9.5	8.5	nm	nm	nm	nm
OVH	8.3	7.2	nm	nm	nm	nm
Go Daddy	12.8	10.8	25.2	18.7	30.4	21.8
Gamma Communications PLC	8.2	7.3	10.5	9.3	17.0	16.4
<b>Peer's International - Average</b>	<b>9.5</b>	<b>8.1</b>	<b>18.4</b>	<b>14.6</b>	<b>25.5</b>	<b>20.2</b>
Total Average Peers	9.8	8.3	15.9	13.5	23.4	19.0
Total Median Peers	9.2	7.5	14.8	13.2	24.8	19.5
<b>DHH @ market price</b>	<b>7.7</b>	<b>5.9</b>	<b>15.4</b>	<b>9.9</b>	<b>21.6</b>	<b>17.0</b>
<i>DHH discount vs Average</i>	-21%	-29%	-3%	-31%	-8%	-10%
<i>DHH discount vs Median</i>	-16%	-22%	4%	-25%	-13%	-12%

Source: Market Consensus, Value Track Analysis

## Discounted Cash Flow Model

As a safety crosscheck, we also update our DCF Model, which incorporates medium and long-term growth potential.

Our model is based on a “target” capital structure with, Net Debt at 30% of the Capital Invested.

Thus, using an expanded CAPM approach, we get an overall 9.4% WACC. The detailed calculation is based on the following assumptions:

- ◆ 2.0% Risk-free rate, 0.9x unlevered beta (weighted average of internet and system & application sectors), 8.08% Italian ERP and additional 1.0% small-cap market risk premium;
- ◆ Explicit financial statements projections from 2023E up to 2031E and Terminal Value at 2031E, obtained applying a 2% Perpetuity Growth Rate (PGR).

The result of the DCF model is **€24.1 fair value per share** (up from €23.2).

### DHH: DCF model

€mn	
PV of future cash flows 2023E-2031E	43.0
PV of Terminal value	74.4
<b>Fair Enterprise value</b>	<b>117.5</b>
Implied EV/EBITDA 23E (x)	11.5x
<b>Net Fin. Position 2023E</b>	<b>-3.8</b>
Minorities (net of related debt)	0.0
Peripheral assets	-0.6
<b>Fair Equity value</b>	<b>113.1</b>
Shs. (mn) – net of Treasury shares	4.7
<b>Fair Equity value per share (€)</b>	<b>24.1</b>

Source: Value Track Analysis

### DHH: Fair Equity Value per share - Sensitivity Analysis to WACC and PGR

		Perpetuity Growth Rate				
		1.50%	1.75%	2.00%	2.25%	2.50%
WACC	8.4%	26.9	27.6	28.4	29.2	30.2
	8.9%	24.8	25.4	26.1	26.8	27.6
	9.4%	23.0	23.6	<b>24.1</b>	24.7	25.4
	9.9%	21.5	21.9	22.4	22.9	23.5
	10.4%	20.1	20.5	20.9	21.3	21.8

Source: Value Track Analysis

## Appendix: DHH portfolio of services / products

DHH provides a broad array of comprehensive services for enterprises in the field of online presence and automation of business processes. Cloud computing and cloud hosting & domains are the core services offered by the Group companies and are enhanced by add-on products meant to complement the core offer.

### #1 Cloud Computing

Succeeding the merger with Seeweb, cloud computing became the largest revenue contributor bringing in around half of the annual sales. It includes cloud servers offered in various configurations to match different client profiles and needs.

The assortment of solutions extends from uncomplicated pre-configured packages tailored to professionals and small enterprises, such as the Easy Cloud Server by Seeweb and the Cloud Server Basic by Artera, to intricate custom cloud environments designed for large websites, eCommerce stores, or applications, including Foundation Server, Virtual Private Cloud, and Foundation Server Smart.

The pricing structure is diversified, targeting distinct client segments.

The cloud services are dispensed in the SaaS, PaaS, or IaaS models, contingent on the client's selected configuration. Cloud computing holds a strategic position for DHH, which seeks to bolster and consolidate its position as a prominent provider in the region.

### #2 Cloud Hosting

DHH is a leading player in a local hosting market with its assortment of companies possessing a robust market presence and a considerable customer base in Italy (Tophost and Seeweb), Slovenia (Domenca, Domovanje, and Si.Shell), Serbia (mCloud and Plus), and Croatia (S4W, Plus Hosting, Infonet, and Optima Hosting).

The product packages are offered as pre-configured products typically varying by SSD and RAM size. Additionally, domain management services are included in the offerings, which have been bolstered by the procurement of all the assets of Tophost's competitor, Misterdomain, effective from 2023.

### #3 Internet Service Provisioning

Thanks to 2020 reverse merger with Seeweb, and to 2021-22 acquisitions of Evolink, Connesi and Warian respectively, DHH now offers to its client bases a range of services such as Internet connectivity (shared, dedicated, managed), cloud connectivity, advanced online streaming technology, VOIP, Virtual Private Networks (VPN), Wide Area Networks (WAN), and more.

### #4 Other

The range of solutions provided by DHH encompasses value-added services (VAS) that supplement the cloud computing and cloud hosting offerings.

These VAS include SSL certificates, data management certificates, website builders, business mail products, and fundamental cybersecurity services, such as email protection, DDoS protection, and web application firewalls.

Additionally, Seeweb offers housing and colocation solutions at its advanced proprietary data centers, in addition to its cloud services.


















## Appendix 2: M&A track record

More than fifteen acquisitions were finalized both before and after the IPO. In details:

- ◆ **2015** – In October, there have been the acquisitions of **Domenca and Domovanje**, two Slovenia brands involved in the domain registration and web hosting, as well the of **Plus HR** and **Plus RS**, market leaders in Croatia and Serbia respectively, and then, in November, the acquisition of **Tophost S.r.l.**, leading low-cost Italian web hosting player.
- ◆ **2016** – In November, the acquisition of **Infonet**, main player in the Croatian web hosting market.;
- ◆ **2017** – In February, DHH entered into a framework agreement to acquire the entire share capital of **Bee Bee Web**, a Swiss based web hosting company together with its Italian reseller Hosting Star and the month next, the acquisition of the branch of **Studio4Web** active in low-cost web hosting in Croatia;
- ◆ **2018** – In October, the acquisition of **mCloud**, a cloud computing provider based in Serbia;
- ◆ **2019** – In December, the acquisition of **Si.Shell**, a business unit focused on the domain segment with around 1,800 active customers;
- ◆ **2020** – In April, the acquisition of 20% stake of **DHH Switzerland** from Sergio Ravera and the month next, the acquisition of **Seeweb**, a cloud computing company which offers SaaS, IaaS and PaaS services;
- ◆ **2021** – In March, the acquisition of **Optima Hosting**, a Croatian web hosting provider, in April the acquisition of the **Mondo Server**, a cloud hosting and cloud computing provider active in the South of Italy, and, finally, in November DHH acquired of 60% stake of **Evolink**, a strong partner for Ethernet connectivity, datacenter and cloud services;
- ◆ **2022** – In July, the acquisition of 69.15% stake of **Connesi**, an independent provider in the field of B2B Internet Access, VOIP and Cloud Computing, in December the acquisition of 45% of **Warian**, an Italian Internet service provider (ISP) operating in the B2B sector with main focus on the wholesale market – the operation was carried out through Seeweb;
- ◆ **2023** – In January, the acquisition of **Misterdomain**, one of the historical players in the Italian web hosting market, by Tophost.

## Appendix 3: Brands and legal entities

### DHH: Brands currently managed

Brand	Brief description
	One of the largest “Infrastructure-as-a- Service” (IaaS) providers in Bulgaria. Offers Ethernet connectivity, datacenter, cloud services to corporate customers and Telecom operators.
 	Cloud computing company which offers SaaS, IaaS and PaaS services, as well as a wide range of additional IT services such as shared hosting, dedicated servers, housing and colocation, relying on six physical datacenters and a proprietary fiber optic network. In April’21 Seeweb acquired Mondo Server to strengthen its presence in the southern Italy.
	Leading Italian player for entry level solutions to more than 46,000 customers, still keeping the status of the lowest-cost web hosting provider in Italy.
  	The Group has leading position in the Slovenian market (with around 27,000 customers and 31% market share). Domenca is a domain registration provider, while Domovanje and Si-Shell are mostly involved in the cloud computing field. High-end products like WordPress and hybrid hosting were launched on the market in FY19.
   	Largest hosting provider in Croatia, with 23% market share and ca. 20,000 customers, more than doubled in three years. Three proprietary brands providing a broad array of services, from low-cost hosting to managed hosting addressed to high end customers.
 	The two brands active in Serbia, Plus hosting and mCloud, target different customers in order to meet several needs, i.e. Revenue per user of mCloud (a cloud computing provider) is on average 7x than that recorded by Plus. They count ca. 6,300 active customers, and ca. 7% market share.
  <small>SWISS PREMIUM HOSTING</small>	Italian/Swiss brand providing high-end services such premium hosting, cloud services and application support designed to meet not only needs of companies and web professional, but also of important portals and e-commerce projects.
	Sysbee is engaged in the business of web hosting and IT solutions, made up of a group of system engineers and infrastructure architects dedicated to bringing DevOps culture to small and medium-sized enterprises. It currently counts ca. 50 active clients.
  <small>INTERNET &amp; SERVIZI</small>	Connesi is an independent provider in the field of Internet Access (via optical fiber - both owned and leased - and fixed wireless network), VOIP, and Cloud Computing, active mainly in Umbria and also present in other Italian regions (e.g., Tuscany and Marche). Aticon is a company fully controlled by Connesi and is focused on the premium B2B market in support of Connesi.
	Owned by Seeweb for 45%, Warian is a B2B Internet Service Provider (ISP) that offers via its own marketplace platforms, reliable, high-performance data connectivity and cloud computing products. Warian is consolidated in DHH’s financial statements with equity method.

Source: Value Track Analysis





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