

**DHH**

Sector: Cloud Computing



# From Cloud Computing to AI Enabler: DHH's new path

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**Fair Value (€)** 27.0**Market Price (€)** 23.4**Market Cap. (€mn)** 114.5

DHH S.p.A. aims to position itself as a relevant player in the evolution of global internet infrastructure through the integration of next-generation technology and artificial intelligence. Based in Europe, the company leverages open-source technologies to enhance digital connectivity across various industries and regions.

## New GPU Product to strengthen AI enabling services

Through its subsidiary Seeweb, DHH has just announced the release of a pioneering **Serverless GPU product tailored for AI applications**, that is the 2<sup>nd</sup> AI-enabling product following "Cloud Server GPU" launched in 2021. This product leverages Kubernetes, i.e., an open-source platform for automating containerized applications, to efficiently manage and orchestrate GPU resources. By incorporating the k8sGPU agent into existing Kubernetes clusters, users will be able to create virtual nodes that access remote GPUs as if they were local, effectively supporting both machine learning training and inference tasks with high performance and minimal downtime.

## Rationale Behind the Product

We appreciate the launch of this new product, as it confirms DHH's strategic focus on **becoming a top-tier "AI enabler"**. While this strategic move may not immediately impact short-term financial figures (with revenues from GPU-related services at €291k in 2023), it significantly bolsters medium to long-term strategic positioning and potential for future revenue growth, as evidenced by a +88% y/y increase in 1Q24. Additionally, we believe DHH will continue to innovate and introduce cutting-edge products, further enhancing its portfolio, thereby boosting competitiveness and strengthen their position as a first mover in the AI enabler industry.

## Fair value p.s. at €27.0 (up from €23.1 p.s.)

The higher growth potential of AI enabling products deserve a different valuation approach even without changing 2024E-25E estimates. We're thus adding a Sum-of-the-Parts based valuation methodology to track the value of AI-as-a-Service business. As a result, we upgrade DHH **fair value p.s. at €27.0** (up from €23.1), as a simple average of: i) DCF model (€27.8); ii) SOTP based Peers' analysis (€26.3). At fair value DHH would trade at 10.5x, 18.2x, 32.2x EV/EBITDA, EV/ EBIT and P/E 2024E respectively. We note that at current stock market price, the stock option plan currently in place might imply (if exercised) the issuance of up to 186k new DHH shares.

KEY FINANCIALS (€mn)	2023	2024E	2025E
REVENUES	34.6	39.7	49.6
EBITDA ADJUSTED	11.5	12.6	15.6
EBIT ADJUSTED	6.0	7.3	9.7
NET PROFIT ADJUSTED	3.3	4.1	5.7
EQUITY	23.7	26.8	32.5
NET FIN. POS.	-6.5	-2.3	-2.8
ADJ. EPS (€)	0.68	0.84	1.17
DPS (€)	0.0	0.0	0.0

Source: DHH Group (2023), Value Track (2024E-25E)

RATIOS & MULTIPLES	2023	2024E	2025E
Adj. EBITDA MARGIN (%)	33.2	31.8	31.4
Adj. EBIT MARGIN (%)	17.3	18.4	19.6
NET DEBT / EBITDA (x)	0.6	0.2	0.2
NET DEBT / EQUITY (x)	0.3	0.1	0.1
EV/SALES (x) (*)	3.3	2.9	2.3
EV/EBITDA (x) (*) (**)	11.1	9.1	7.4
EV/EBIT (x) (*) (**)	23.7	15.8	11.9

Source: DHH Group (2023), Value Track (2024E-25E)

(\*) EV adjusted for peripherals and treasury shares

(\*\*) 2023A EBITDA and EBIT adjusted for stock option charges

**STOCK DATA**

FAIR VALUE (€)	27.0
MARKET PRICE (€)	23.4
SHS. OUT. (m)	4.89
MARKET CAP. (€m)	114.5
FREE FLOAT (%)	24%
AVG. -20D VOL. (#)	2,669
RIC / BBG	DHH.MI / DHH IM
52 WK RANGE	13.10-24.40

Source: Stock Market Data



## Business Description

DHH S.p.A. is dedicated to reshaping internet infrastructure through the integration of next-generation technology and artificial intelligence. Based in Europe, the company leverages open-source technologies to enhance digital connectivity across various industries and regions. With a commitment to continuous research and open innovation, DHH aligns technological progress with stringent data privacy standards. This approach promotes technological excellence while safeguarding individual privacy, aiming to position the company as a relevant player in the evolution of global internet infrastructure.

## Key Financials

€mn	2023	2024E	2025E	2026E
<b>Total Revenues</b>	<b>34.6</b>	<b>39.7</b>	<b>49.6</b>	<b>59.2</b>
Chg. % YoY	16.9%	14.5%	25.0%	19.3%
<b>EBITDA</b>	<b>11.5 (*)</b>	<b>12.6</b>	<b>15.6</b>	<b>18.0</b>
EBITDA Margin (%)	33.2% (*)	31.8%	31.4%	30.4%
<b>EBIT</b>	<b>6.0 (*)</b>	<b>7.3</b>	<b>9.7</b>	<b>11.0</b>
EBIT Margin (%)	17.3% (*)	18.4%	19.6%	18.7%
<b>Net Profit Reported</b>	<b>2.2</b>	<b>4.1</b>	<b>5.7</b>	<b>6.6</b>
Chg. % YoY	nm	85.5%	39.7%	15.4%
<b>Net Profit Adjusted</b>	<b>3.3</b>	<b>4.1</b>	<b>5.7</b>	<b>6.6</b>
Chg. % YoY	28.0%	23.2%	39.7%	15.4%
<b>Net Fin. Position</b>	<b>-6.5</b>	<b>-2.3</b>	<b>-2.8</b>	<b>-2.9</b>
Net Fin. Pos. / EBITDA (x)	0.6	0.2	0.2	0.2
Capex	-6.2	-5.0	-6.4	-8.1
<b>OpFCF b.t.</b>	<b>5.6</b>	<b>7.4</b>	<b>9.8</b>	<b>10.6</b>
OpFCF b.t. as % of EBITDA	48.3%	58.9%	62.8%	58.9%

Source: DHH Group (historical figures), Value Track (estimates) (\*) 2023 Adjusted

## Investment case

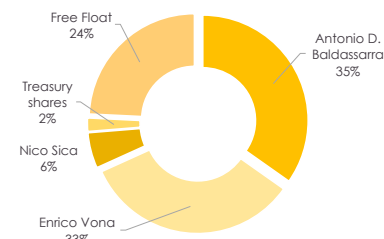
### Strengths / Opportunities

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

### Weaknesses / Risks

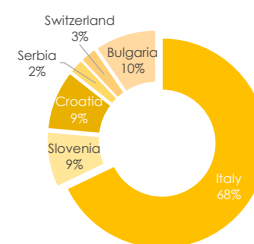
- ◆ Much lower size if compared to US tech giants
- ◆ Highly competitive market with several players

## Shareholders Structure



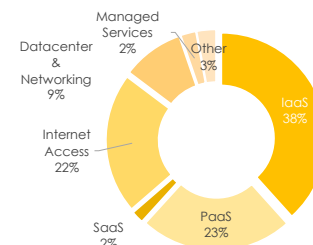
Source: DHH Group

## Sales b.down by country (2023)



Source: DHH Group

## Sales b.down by segment (2023)



Source: DHH Group

## Stock multiples @ €27.0 Fair Value

	2024E	2025E
EV / SALES (x)	3.4	2.7
EV / EBITDA (x)	10.5	8.6
EV / EBIT (x)	18.2	13.7
EV / Cap. Empl. (x)	4.6	3.8
OpFCF Yield (%)	7.4	9.1
P / E Adj. (x)	32.2	23.1
P / BV (x)	5.1	4.1
Cash Div. Yield. (%)	0.0	0.0

Source: Value Track

## Increasing focus on AI-as-a-Service

DHH, via its subsidiary Seeweb, has just launched a pioneering **Serverless GPU product** aimed at enhancing AI applications for developers.

This new product adds to the one that we described in our recently published in depth report on DHH (“The right company at the right time in the right place” as of April 3<sup>rd</sup> 2024) named **Cloud Server GPU**, a product launched back in mid-June 2021 that allowed Seeweb to be included among the top 15 Cloud Server Providers for GPU-Powered LLM fine-tuning and training, alongside giants such as Microsoft Azure, Google Cloud, AWS and more (Source: online publication *Towards AI*).

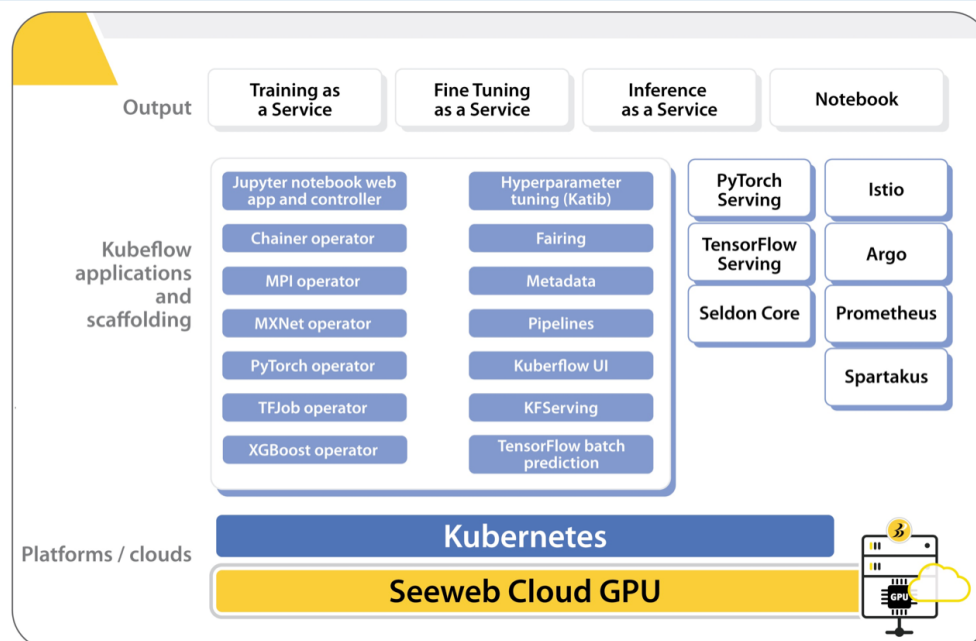
While revenues from GPU related services are still pretty small (€291k in 2023, and ca. < €1mn in annual recurring revenue in 2024), the expectation is for a significant take up in the next years and indeed the increase in 1Q24 stood at +88% y/y.

We appreciate the launch of this new product **because it confirms the strategy of the company to increase the efforts in order to become a top tier “AI enabler”**.

Such strategic developmental trajectories include:

- ◆ **The expansion of AI infrastructure technology's scope** — currently a proprietary feature of the Seeweb brand within Italian territories and hosted on domestic data centers—to encompass additional corporate entities under the DHH umbrella situated in international locales, notably the Balkans;
- ◆ **Broadening its range of products and services** to encompass GPUs with specific specializations, extending beyond its existing collaboration with NVIDIA, which has been the exclusive provider in the domain of AI chips. This expansion involves the integration of new offerings, such as the "AMD Instinct" products;
- ◆ **Developing a platform designed to offer streamlined access to its specialized AI cloud services**. This venture, designated as Artificial Intelligence as a Service (AIaaS), is intended to supply crucial functionalities such as training, fine-tuning, and inference, leveraging the capabilities of foremost Large Language Models (LLMs).

### Seeweb: AlaaS approach



Source: Seeweb

## # 1 AI-as-a-Service product: Cloud Server GPU

Here follows some details on the Cloud Server GPU product launched back in 2021.

Seeweb: Cloud Server GPU offer flyer

# CLOUD SERVER GPU SEEWEB

Your powerful, managed and on demand GPU Computing infrastructure

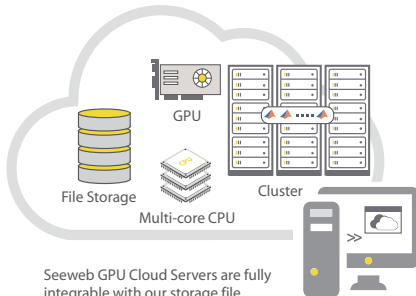
### Cloud Server GPU: what is it?

It is the flexible and ready-to-use GPU Computing service provided by Seeweb.

Based on open source technology, it enables you to manage parallel massive tasks and all the activities that need an intensive use of resources with maximum speed. Our servers' performances are possible thanks to the use of NVIDIA **powerful graphic processors**.

### Main use cases

- Machine Learning and Deep Learning
- Infrastructures for the AI
- Natural language processing
- Graphic calculation acceleration
- VDI scientific research
- Video Processing
- Big Data processing
- CUDA applications
- Computational Finance
- Genomics
- Seismic analysis



Seeweb GPU Cloud Servers are fully integrable with our storage file solutions, to meet every need of space.

# seeweb

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### Seeweb GPU Computing proposal

Many companies in the world are using cloud solutions for Machine Learning, Deep Learning, Computer Vision, and virtual remote workstations. GPU servers also accelerate activities taking advantage of data to improve business and marketing strategies, scientific research and much more.

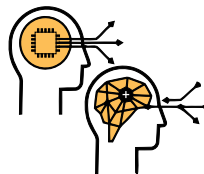
With Seeweb GPU Cloud Server you obtain a cloud, **high performance environment**, designed for the maximum integrability with other public cloud services. Take advantage of:

- extremely powerful NVIDIA graphic cards, already integrated in our cloud
- ready-to-use stacks
- easy driver installation
- deployment automation
- easy use via API
- customizable servers images
- integrated with Kubernetes
- IaC (Terraform) support
- minimum latency (Data Centers in Italy)
- pre-sales and post-sales support, h24 available
- 3 levels of assistance and full management of your super-calculation infrastructure
- on demand resources: billing on the base of the real usage
- green computing (DNSH and ISO 14001 certified infrastructure )
- GDPR compliance in the EU area
- infrastructure built on the customer's requirements
- integrability with all our cloud storage services

### HPC workloads managed in our Data Centers sustainably and safely

We enable the acceleration of your work with AI and we speed up **massive and parallel calculations** with an HPC solution managed by our engineers and graphic processors projected for being used in Data Center environments.

In our high-density racks, we put 10 GPUs at disposal in a single server to satisfy your needs of **high SLA**, flexibility and sustainability: our graphic cards are characterized by **low energy consumption** and installed on server farms only powered by renewable energies.



Hosting your AI projects in our infrastructures, that are ISO/IEC 27001, 27017, 27018 and 27701 certified, you obtain the perfect environment for the management of sensitive data, health, finance and business data, in an environment that guarantees you the constant monitoring of your business continuity and protects you against **DoS attacks** and security risks.

Source: Seeweb

## # 2 AI-as-a-Service product: GPU Serverless

The pioneering Serverless GPU product is aimed at enhancing AI applications, leveraging Kubernetes, an open-source system for managing containerized applications, to streamline and coordinate GPU resources effectively.

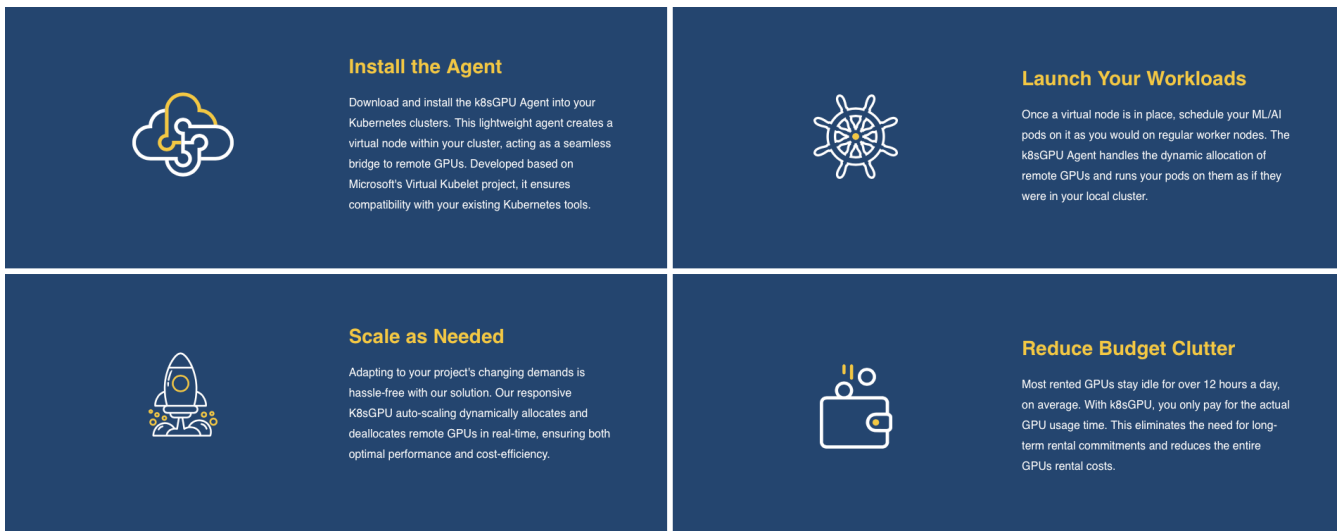
With the inclusion of the k8sGPU agent in current Kubernetes clusters, users can establish virtual nodes that utilize remote GPUs as though they were local, ensuring robust support for machine learning training and inference tasks with superior performance and reduced downtime.

Key advantages of this product should be:

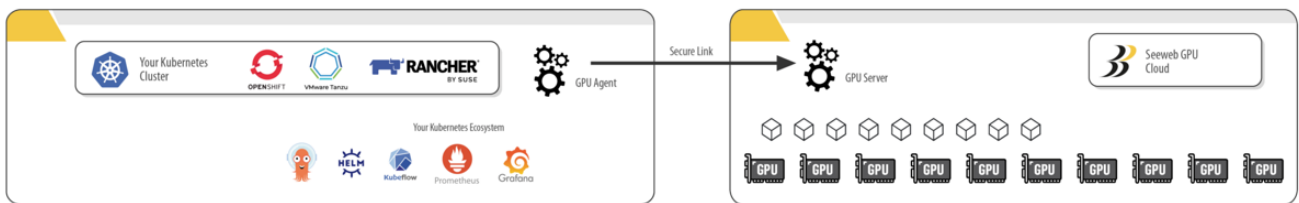
- ◆ **Reduced need to have in-depth IT architectural skills**, as the product is more similar to a software platform than to a hardware based one;
- ◆ **Scalability and flexibility** – Possibility to scale GPU resources up or down in response to real-time requirements, thereby avoiding delays and costs associated with procuring physical hardware;
- ◆ **Cost-effective** – Alleviate the financial burden of substantial capital expenditures on GPU hardware with a pay-as-you-use model;
- ◆ **Sustainability** – Enhance energy efficiency by dynamically allocating GPU resources, thus reducing overall power consumption.

### Seeweb: Serverless GPU product tailored for AI applications

#### How it Works



#### Architecture



Source: Seeweb

## Valuation

We are revising the valuation without altering the estimates, following DHH's decision to progressively increase its effort in order to become a top tier AI enabler. Indeed, such decision should, in our view, massively increase the medium growth potential of the company, with growth being driven by the AI-as-a-Service related products.

As a result, we are changing our evaluation criteria by integrating the DCF model with a Sum-of-the-Parts ("SOTP") based Peers' analysis, comprising two distinct clusters, i.e., one for the traditional business segment (Cloud Computing & Internet Access) and another for the "innovative" AI-as-a-Service one.

Thus, based on the outstanding number of shares, DHH **fair value per share converges at €27.0**, which would imply a **ca. €130mn market capitalization**, as simple average of: i) DCF model (€27.8); ii) SOTP based Peers' analysis (€26.3).

At fair value, DHH would trade at 10.5x, 18.2x, 32.2x EV/EBITDA, EV/ EBIT and P/E 2024E respectively.

We note that at current stock market price, the stock option plan currently in place might imply (if exercised) the issuance of up to 186k new DHH shares.

### SOTP based Peers' Analysis

#### Peers Selection

To pick companies that could effectively describe the different features of DHH business, we opted for diverse pools of comparables, mainly international, both mature and growing firms, acting in the Cloud Computing & Internet Access and AI Enabler sectors.

In detail, we have decided to remove *Unidata* and *Intred* from the peer group list, included in the prior research conducted in May, and have instead added the following companies:

- ◆ **Cyber Folks** – Poland-based specialized in web hosting, domain registration, and comprehensive online solutions. With a focus on high reliability, speed, and security, it leverages state-of-the-art technologies to ensure optimal performance for its clients' digital assets, making it a trusted partner in the ever-evolving digital landscape;
- ◆ **E2E Networks** – Indian cloud infrastructure provider providing accelerated cloud which supports machine learning applications and other critical workloads. It enables customers to provision/manage and monitor Linux/Windows/GPU Cloud Machines with high performance CPU, large memory or smart dedicated compute featuring dedicated CPU cores;
- ◆ **Nvidia** – Leading technology innovator best known for its advanced GPUs and AI computing platforms. It offers: i) computing and networking solutions, such as data centre platforms and infrastructure, ethernet interconnect solutions, high-performance computing solutions, platforms and solutions for autonomous and intelligent vehicles, solutions for enterprise AI infrastructure, and so on; ii) graphics processors;
- ◆ **CloudFlare** – Global cloud services provider renowned for its comprehensive suite of content delivery, internet security, and DDoS mitigation solutions. It stands at the forefront of leveraging AI to enhance its cybersecurity capabilities, improve network performance, and deliver predictive analytics for proactive threat detection and mitigation;
- ◆ **Nextdc** – Australian data centre operator offering premium colocation services and infrastructure solutions. It employs AI to improve operational efficiency, manage energy consumption, and enhance data center resilience, ensuring high reliability and sustainability of its services in an increasingly digital and AI-driven economy;

- ◆ **DigitalOcean** – Cloud computing platform proving SMBs with a comprehensive suite of cloud offerings, advanced networking and the flexibility to harness both GPUs and CPUs capabilities. It offers mission-critical solutions across: i) IaaS, including its Droplet virtual machines, storage, and networking offerings; ii) PaaS, including its managed database and managed Kubernetes offerings; iii) SaaS, including its managed hosting and marketplace offerings.

Thus, our two clusters include:

- 1. Cloud Computing** stocks, i.e., WIIT, Beeks Financial Cloud, IONOS, Gigas Hosting, OVH, Go Daddy and Clyber Folks (as a new entry);
- 2. AI Enablers** comparables, i.e., E2E, Nvidia, CloudFlare, Nextdc and DigitalOcean (all new).

### Stock Market Multiples Benchmark

The whole panel of peers is trading at median **4.7x EV/Sales, 13.9x EV/EBITDA, 38.4x P/E Adj. 2024E**, with DHH trading at ca. **30%-40% discount** on 2024E-25E multiples. However, splitting the clusters, we see that:

- ◆ **Cloud Computing & Internet Access** peers trade at a median 10.3x EV/EBITDA, 26.2x EV/EBIT and 29.2 P/E 2024E;
- ◆ **AI Enablers** stocks exhibit the most demanding multiples, as expected. Indeed, the sector is highly hyped and trades at a very high median 22.5x EV/Sales.

### DHH: Peers' stock trading multiples

Company	EV / Sales (x)		EV / EBITDA (x)		P/E (x)	
	2024E	2025E	2024E	2025E	2024E	2025E
<b>Cloud Computing</b>						
WIIT	4.4	3.9	12.6	10.6	30.0	22.1
Beeks Financial Cloud	3.7	2.7	10.1	7.5	82.2	42.6
IONOS	2.9	2.6	10.3	8.7	20.7	16.2
Gigas Hosting	1.9	nm	7.7	nm	nm	nm
OVH	1.8	1.7	5.0	4.5	nm	51.8
Go Daddy	5.0	4.7	17.3	15.3	21.3	23.2
Cyber Folks	3.3	2.8	10.9	8.8	29.1	22.9
<b>Average</b>	<b>3.3</b>	<b>3.1</b>	<b>10.6</b>	<b>9.2</b>	<b>36.7</b>	<b>29.8</b>
<b>Median</b>	<b>3.3</b>	<b>2.8</b>	<b>10.3</b>	<b>8.8</b>	<b>29.1</b>	<b>23.0</b>
<b>AI Enablers</b>						
E2E	22.5	18.6	44.9	37.2	97.7	92.1
Nvidia	24.3	18.1	37.8	28.4	46.9	35.6
CloudFlare	14.5	11.4	80.0	59.3	nm	nm
Nextdc	25.7	23.9	53.5	47.4	nm	nm
DigitalOcean	5.7	4.9	15.1	12.8	66.1	49.5
<b>Average</b>	<b>18.5</b>	<b>15.4</b>	<b>46.3</b>	<b>37.0</b>	<b>70.2</b>	<b>59.1</b>
<b>Median</b>	<b>22.5</b>	<b>18.1</b>	<b>44.9</b>	<b>37.2</b>	<b>66.1</b>	<b>49.5</b>
<b>Total Average Peers</b>	<b>9.6</b>	<b>8.7</b>	<b>25.4</b>	<b>21.9</b>	<b>49.2</b>	<b>39.6</b>
<b>Total Median Peers</b>	<b>4.7</b>	<b>4.7</b>	<b>13.9</b>	<b>12.8</b>	<b>38.4</b>	<b>35.6</b>
<b>DHH @ market price</b>	<b>2.9</b>	<b>2.3</b>	<b>9.1</b>	<b>7.4</b>	<b>27.9</b>	<b>20.0</b>
<i>DHH discount vs Average</i>	-70%	-73%	-64%	-66%	-43%	-49%
<i>DHH discount vs Median</i>	-38%	-51%	-34%	-42%	-27%	-44%

Source: Market Consensus, Value Track Analysis

### SOTP Valuation

Our SOTP valuation returns a Fair Equity Value of €26.3 p/s, obtained by:

- ◆ Applying peers' EV/EBITDA 2024E Cloud Computing's cluster median (10.3x) to **DHH stand-alone** (i.e., excluding Cloud GPU business segment) EBITDA;
- ◆ Applying peers' EV/Sales 2024E AI Enablers's cluster median (22.5x, with a 50% discount applied, resulting in a fair multiple of 11.2x) to **Cloud GPU segment** Sales.

### DHH: Value of Production and EBITDA assumptions by business unit (\*)

Assumptions	2024E
<b>Value of Production</b>	<b>39.7</b>
Cloud Computing Services	39.1
Cloud GPU as-a-Service	0.5
<b>EBITDA</b>	<b>12.6</b>
Cloud Computing Services	12.4
Cloud GPU as-a-Service	0.2

Source: Value Track Analysis (\*)Value Track estimates

### DHH: Sum of the Parts Valuation

Fair Equity Value (€mn)	DHH (excl. GPU)	GPU	Total
Peers EV/Sales 2024E (x)		22.5	
Peers EV/EBITDA 2024E (x)	10.3		
Discount vs. Peers (%)	0%	50%	
<b>Fair Multiple</b>	<b>10.3</b>	<b>11.2</b>	
<b>Fair Enterprise Value (€mn)</b>	<b>127.4</b>	<b>6.1</b>	<b>133.6</b>
As a % of Total	95%	5%	100%
Net Financial Position 2023A (€mn)			-6.5
Adjustments 2023A			1.5
<b>Fair Equity Value</b>			<b>128.5</b>
NOSH			4.9
<b>Fair Equity Value p/s (€)</b>			<b>26.3</b>

Source: Market Consensus, Value Track Analysis



## Discounted Cash Flow Model

Our DCF model is based on a “target” capital structure with Net Debt at 30% of the Capital Invested. Expanded CAPM based WACC stands at ca. 8.7%. The detailed calculation is based on the following assumptions:

- ◆ 2.0% Risk-free rate, 1.1x unlevered beta (weighted average of internet and system & application sectors), 5.62% Italian ERP and additional 1.5% small-cap market risk premium;
- ◆ Explicit financial statements projections from 2024E up to 2031E and Terminal Value at 2031E, obtained applying a 3.5% Perpetuity Growth Rate (PGR) (from the 2% of the last update report, given the strong prospects in the AI business brought forth by DHH with its Cloud GPU products).

The result of the DCF model is € 27.8 fair value per share.

### DHH: DCF Model

€mn	
PV of future cash flows 2024E-2031E	42.4
PV of Terminal value	98.5
<b>Fair Enterprise value</b>	<b>140.8</b>
Implied EV/ Adj. EBITDA 24E (x)	11.2x
<b>Net Fin. Position 2023A</b>	<b>-6.5</b>
Minorities (net of related debt)	-1.6
Peripheral assets	3.1
<b>Fair Equity value</b>	<b>135.8</b>
Number of shares (mn)	4.9
<b>Fair Equity value per share (€)</b>	<b>27.8</b>

Source: Value Track Analysis

### DHH: Multiples analysis at various prices

DHH share price (€)	EV/EBITDA		EV/EBIT		P/E	
	2024E	2025E	2024E	2025E	2024E	2025E
€ 23.0	9.0	7.3	15.5	11.7	27.4	19.6
€ 24.0	9.4	7.6	16.2	12.2	28.6	20.5
€ 25.0	9.8	7.9	16.9	12.7	29.8	21.4
€ 26.0	10.1	8.3	17.5	13.2	31.0	22.2
€ 27.0	10.5	8.6	18.2	13.7	32.2	23.1
<b>€ 27.8</b>	<b>10.8</b>	<b>8.8</b>	<b>18.7</b>	<b>14.1</b>	<b>33.2</b>	<b>23.7</b>

Source: Value Track Analysis

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