DHH

Sector: Cloud Computing / Internet infrastructure

VALUETRACK

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18th consecutive semester of growth, and >30% EBITDA margin

Fair Value (€)	**29.3**
Market Price (€)	**25.4**
Market Cap. (€mn)	**124.3**

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.

1H24: EBITDA +40% y/y (32.6% Margin), €2.9mn FCF

DHH 1H24 is robust and aligned with our FY projections. In details:

- Revenues from Sales up at €18.0mn, all-organic +8.7% y/y driven by Cloud Computing (+9% y/y supported by AI infrastructure and Other Innovative Products all growing at double and triple digit rate), Cloud Hosting (+7% y/y) and Business Connectivity (+9% y/y);
- Reported EBITDA up +40% y/y at ca. €6.0mn (+11.4% y/y Adj.), with EBITDA Margin at 32.6% of VoP, up some +750bps y/y;
- EBIT up +136% y/y, at ca. €3.5mn, reflecting the positive impact of higher EBITDA and lower D&A charges y/y;
- FCF at ca. €2.9mn, after ca. €4.0mn capex (incl. RoU), leading Net Debt at ca. 3.6mn (from €6.5mn as of 2023YE).

We underline the consistent growth pace (18 consecutive semesters of revenue growth), the very high quality of revenues (ca. 94% recurring), the sound operating profitability and strong cash flow generation.

Minimal fine-tuning of 2024E-onward estimates

We are fine tuning our estimates with bit lower Top Line, higher EBITDA-EBIT-Net Profit margins, and improved cash generation. In 2024E-25E-26E years we now forecast: 1) VoP to get close to €60mn (18.6% $CAGR_{23A\text{-}26E}$, 10% organic plus M&A); 2) EBITDA Margin always >30%; 3) €46mn cumulated EBITDA more than covering €33mn of cumulated capex and M&A cash out.

2024E roadmap mainly focused on AI infrastructure

DHH product roadmap is focused on the development of high-performance hardware + software AI infrastructure designed to be flexible, scalable and user-friendly, thus allowing corporate clients to effectively leverage them. Three main products have been launched into the market so far and we expect new announcements within the year-end.

Fair value per share at €29.3 (up from €27.0)

Lower ERP and higher peers' multiples are **driving upwards DHH fair value per share at €29.3** (from €27.0 p/s). At fair value, DHH would trade at 3.7x-3.0x EV/Sales, 11.4x-9.3x EV/EBITDA 2024E-25E, vs. Peers trading at 5.6x-5.1x EV/Sales, 15.6x-16.3x EV/EBITDA 2024E-25E respectively.

KEY FINANCIALS (€mn)	2023	2024E	2025E
REVENUES	34.6	38.4	48.3
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	-2.0	-2.7
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	32.9	32.2
Adj. EBIT MARGIN (%)	17.3	19.0	20.1
NET DEBT / EBITDA (x)	0.6	0.2	0.2
NET DEBT / EQUITY (x)	0.3	0.1	0.1
EV/SALES (x) (*)	3.6	3.3	2.6
EV/EBITDA (x) (*) (**)	10.9	9.9	8.1
EV/EBIT (x) (*) (**)	20.9	17.1	12.9

Source: DHH Group (2023), Value Track (2024E-25E)
(*) EV adjusted for peripherals and treasury shares
(**) 2023A EBITDA and EBIT adjusted for stock option charges

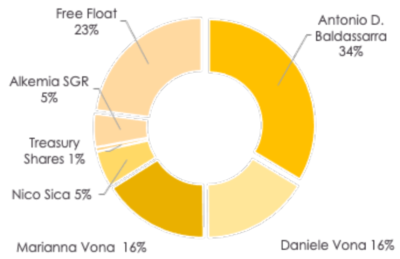
STOCK DATA	
FAIR VALUE (€)	29.3
MARKET PRICE (€)	25.4
SHS. OUT. (m)	4.89
MARKET CAP. (€m)	124.3
FREE FLOAT (%)	24%
AVG. -20D VOL. (#)	418
RIC / BBG	DHH.MI / DHH IM
52 WK RANGE	13.10-30,00

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.

Shareholders Structure



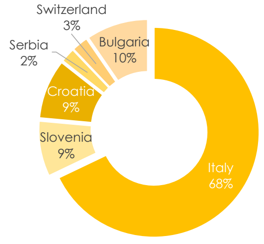
Source: DHH Group

Key Financials

€mn	2023	2024E	2025E	2026E
Total Revenues	**34.6**	**38.4**	**48.3**	**57.8**
Chg. % YoY	16.9%	10.9%	25.8%	19.6%
EBITDA	**11.5 (*)**	**12.6**	**15.6**	**18.0**
EBITDA Margin (%)	33.2% (*)	32.9%	32.2%	31.1%
EBIT	**6.0 (*)**	**7.3**	**9.7**	**11.0**
EBIT Margin (%)	17.3% (*)	19.0%	20.1%	19.1%
Net Profit Reported	**2.2**	**4.1**	**5.7**	**6.6**
Chg. % YoY	nm	85.5%	39.7%	15.4%
Net Profit Adjusted	**3.3**	**4.1**	**5.7**	**6.6**
Chg. % YoY	28.0%	23.2%	39.7%	15.4%
Net Fin. Position	**-6.5**	**-2.0**	**-2.7**	**-2.8**
Net Fin. Pos. / EBITDA (x)	0.6	0.2	0.2	0.2
Capex	-6.2	-5.0	-6.4	-8.2
OpFCF b.t.	**5.6**	**7.7**	**9.6**	**10.6**
OpFCF b.t. as % of EBITDA	48.3%	61.0%	61.9%	58.9%

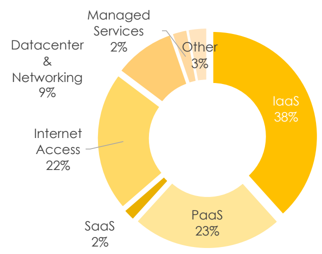
Source: DHH Group (historical figures), Value Track (estimates) (*) 2023 Adjusted

Sales b.down by country (2023)



Source: DHH Group

Sales b.down by segment (2023)



Source: DHH Group

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

Stock multiples @ €29.3 Fair Value

	2024E	2025E
EV / SALES (x)	3.7	3.0
EV / EBITDA (x)	11.4	9.3
EV / EBIT (x)	19.7	14.9
EV / Cap. Empl. (x)	5.0	4.1
OpFCF Yield (%)	7.0	8.3
P / E Adj. (x)	35.0	25.0
P / BV (x)	5.5	4.5
Cash Div. Yield. (%)	0.0	0.0

Source: Value Track

1H24: Top Line +9% y/y, EBITDA +40% y/y

DHH's 1H24 interim results are healthy and pretty much in line with our full year estimates.

Key business messages, as also stated by the company, can be summarized as follows:

- Focus on the **continuous launch of new "technology-as-a-service" products**. In 1H24 this has implied the launch of products in areas such as AI infrastructure and video streaming, all of which have been positively received in the market;
- **Very high-quality of revenue**, with steady recurring income accounting for more than 90% of total and with a highly diversified customer base;
- **Sound profitability** and **strong cash flow generation c**apability;
- Business development based on **organic growth** leveraged by **M&A activity**.

In terms of **1H24 financials**, we flag the following:

- **Revenues from sales at €18.0mn** (vs. €16.5mn, all-organic +8.7% y/y), driven by upsurged revenues in the Cloud Computing (+9%), Cloud Hosting (+7%) and Business Connectivity (+9%). **Recurring revenues** are **94%** of total, highlighting customer retention and predictable turnover;
- **Reported EBITDA up +40% y/y, at ca. €6.0mn**, with **EBITDA Margin at 32.6%** of VoP, up some +750bps y/y due to Stock Option Plan weight in 1H23;
- **Reported EBIT up +136% y/y, at ca. €3.5mn**, thanks to higher EBITDA and lower D&A charges y/y related to the conclusion of specific operating lease agreements;
- **OpFCF b.t. at ca. €3.2mn,** i.e., ca 54% of EBITDA, negatively burdened by capex but positively affected by working capital management and sale of treasury shares;
- **FCF at €2.9mn** leading **Net Debt at ca. €3.6mn**, well under control (Net Debt / annualized EBITDA at ca. 0.3x).

DHH Group: Key Financial Items 1H22 – 1H23 – 1H24

(€mn)	1H22	1H23	1H24	y/y (%)
Revenues from Sales	12.1	16.5	18.0	+8.7%
EBITDA Adjusted (*)	3.7	5.4	6.0	+11.4%
EBIT Adjusted (*)	1.8	2.6	3.5	+34.9%
Net Profit Adjusted (*)	1.2	1.4	2.0	+41.2%
EBITDA Reported	3.7	4.3	6.0	+40.1%
EBIT Reported	1.8	1.5	3.5	+136.0%
Net Profit Reported	1.2	0.3	2.0	+565.9%
OpFCF before taxes	**2.8**	**3.0**	**3.2**	**+7.4%**
Net Fin. Position [Net debt (-) / Cash (+)]	**0.9**	**-5.6**	**-3.6**	**+1.9**

Source: DHH Group, Value Track analysis, (*) Gross of Stock Option Plan charges

Top Line growing all organically by ca. +9% y/y

1H24 Revenues from Sales came in at €18.0mn, +8.7% y/y, while Value of Production was up ca. +7.8% y/y. We note: i) +9% rise in the Cloud Computing segment, contributing €7.0mn to total revenue (38% of total) and supported by the new products' double/triple digit growth (i.e., AI infrastructure, video streaming for municipalities, Kubernetes service, all together accounting over €1.0mn revenues); ii) +7% growth in the Cloud Hosting segment, accounting for 23% of total; iii) +9% increase in the Business Connectivity segment, contributing 21% of total.

DHH Group: 1H23 – 1H24 Revenue from Sales by Business Segments (*)

(€mn)	1H23	1H24	y/y (%)
Cloud Computing	6.4	7.0	9.0%
As a % of Total Revenues	*39%*	*39%*	*//*
Cloud Hosting	4.0	4.3	7.0%
As a % of Total Revenues	*24%*	*24%*	*//*
Business Connectivity	3.6	3.9	9.0%
As a % of Total Revenues	*22%*	*22%*	*//*
Other	2.5	2.8	10.2%
As a % of Total Revenues	*15%*	*15%*	*//*
Total Revenues from Sales	**16.5**	**18.0**	**8.7%**

Source: DHH Group, Value Track analysis, (*) Categorization changed in January 2024: Cloud Computing (formerly IaaS and SaaS), Cloud Hosting (formerly PaaS), Business Connectivity (formerly Internet Access); other categories remain unchanged

Looking at the various geographies, Croatia and Switzerland were the best performing ones in terms of organic growth rates (+11%) while Bulgaria (Evolink) was the laggard, with a zero-growth rate. Slovenia was up, though at a less robust growth, with a high single digit rate increasing (+8% y/y). On the other hand, Italian business saw a great upsurge of +10% y/y.

DHH Group: 1H23 – 1H24 Revenue from Sales by Geography (%)

Source: DHH Group, Value Track Analysis

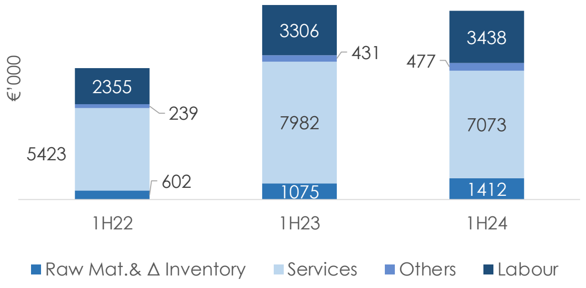
EBITDA Margin up by more than 700bps at ~32.6%

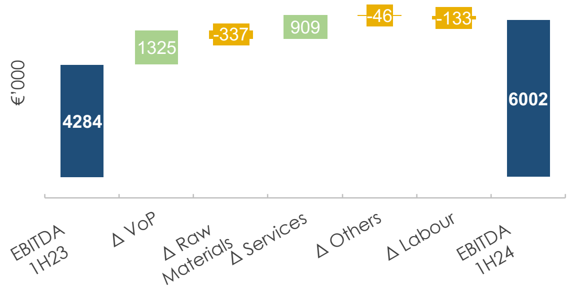
Reported EBITDA was up +40.1% y/y at €6.0m and **EBITDA Margin** was up as well +753bps to **32.6%** after Total Opex at €12.4mn (-3.1% y/y). We note:

- the absence of non-recurring professional services expenses that impacted the previous year's results (i.e., ~€1.1mn of Stock Options plan charge);
- the overall stability of main operating costs as higher raw material costs (purchase of modems by Connesi and VMware licenses by Seeweb), were offset by a reduction in datacentre expenses (mainly due to lower energy costs).

Below EBITDA, the decrease of D&A charges by ca. €290k, mainly due to the termination of certain operating leases, drove EBIT up +136.0% y/y at €3.5mn and Net Profit at €2.0mn (vs. €314k in 1H23).

DHH Group: Costs Structure and Reported EBITDA Bridge 1H23-1H24





Source: DHH Group, Value Track Analysis

DHH Group: Income Statement 1H22 – 1H23 – 1H24

(€ mn)	1H22	1H23	1H24	y/y (%)
Revenues from Sales	**12.1**	**16.5**	**18.0**	**+8.7%**
Other Revenues	0.3	0.6	0.4	-19.8%
Value of Production	**12.4**	**17.1**	**18.4**	**+7.8%**
COGS	-6.0	-9.1	-8.5	-6.3%
Labour costs	-2.4	-3.3	-3.4	+4.0%
Other OpEx	-0.2	-0.4	-0.5	+10.6%
EBITDA	**3.7**	**4.3**	**6.0**	**+40.1%**
EBITDA Margin (%)	*30.2%*	*25.1%*	*32.6%*	*+753bps*
D&A	-1.9	-2.8	-2.5	-10.3%
EBIT	**1.8**	**1.5**	**3.5**	**+136.0%**
EBIT Margin (%)	*15.0%*	*8.7%*	*18.9%*	*+1,029bps*
Net Financial Charges	-0.1	-0.4	-0.4	+12.7%
Taxes	-0.6	-0.8	-1.1	+33.2%
Minorities	0.0	0.0	0.0	+70.6%
Net Profit	**1.2**	**0.3**	**2.0**	**+565.9%**
EBITDA Adjusted	**3.7**	**5.4**	**6.0**	**+11.4%**
EBIT Adjusted	**1.8**	**2.6**	**3.5**	**+34.9%**
Net Profit Adjusted	**1.2**	**1.4**	**2.0**	**+41.2%**

Source: DHH Group, Value Track Analysis

Operating Cash Flow remains strong, i.e. OpFCF b.t. on EBITDA at 54% (close to 90% if we deduct one off capex on RoU)

As for the Balance Sheet / Cash Flow Statement, we note:

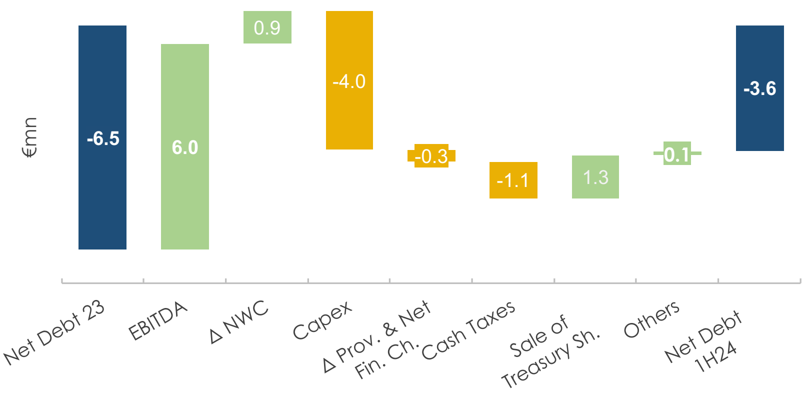
- Tangible and intangible investments (included RoU) at €3.7mn in 1H24 vs. €4.5mn in 1H23, down y/y mainly due to high intangible investments in 1H23 (at €920k vs. €239k in 1H24) from business unit acquisitions. Note that IRU investments (~ €2.1mn in 1H24, vs. €2.5mn in 1H23) are typically higher in 1H, therefore, are expected to have a reduced impact on cash flows in 2H;
- Net Working Capital at €-4.0mn (-10.9% of Sales), with an increase in Trade Receivables (from €4.7mn in FY23 to €5.1mn in 1H24), more than offset by an increase in Trade Payables (from €4.1mn in FY23 to €4.5mn in 1H24) and Tax Payables (from €810k to €1.8mn);

As a result, **OpFCF before taxes** (defined as EBITDA - Tangible and Intangible Capex ± ΔNWC ± Δ Provisions) **stood at 53.9% of the EBITDA**, still emphasising the strong cash generation capabilities of the DHH business model granted by recurring revenues despite ca. €4.0mn Capex. We calculate that **net of some €2.1mn one off RoU investments the OpFCF conversion would have been close to 90%**;

As far as **Net Debt Position** is concerned, it has improved to **€3.6mn** (vs. €6.0mn and €6.5mn recorded in 1Q24 and FY23, respectively) driven by the previously mentioned factors as well as the sale of treasury shares, which contributed approx. €1.3mn.

Worthy to note, DHH holds cash available at €13.2mn, to be likely devoted to further future M&A deals.

DHH Group: Cash Flow Bridge 1H24



Source: DHH Group, Value Track Analysis

DHH Group: Balance Sheet FY22 – 1H23 – FY23 – 1H24

(€ mn)	**FY22**	**1H23**	**FY23**	**1H24**
Total Current Assets	7.4	6.7	6.9	7.7
Total Current Liabilities	10.1	10.8	10.0	11.7
Net Working Capital	**-2.6**	**-4.1**	**-3.1**	**-4.0**
As a % of Revenues	*-7.6%*	*-12.0%*	*-8.7%*	*-10.9%*
Goodwill	10.5	11.1	10.4	10.4
Tangibles & Intangibles (ex Goodwill)	21.3	22.4	22.1	23.3
Financial assets	2.0	2.0	1.7	1.7
Other net assets	1.5	1.5	1.5	1.5
Net Fixed Assets	**35.1**	**37.0**	**35.7**	**37.0**
Provisions	2.4	2.4	2.4	2.5
Total Capital Employed	**30.2**	**30.5**	**30.2**	**30.5**
Group Net Equity	**24.1**	**24.9**	**23.7**	**26.9**
Net Fin. Position [Net debt (-) / Cash (+)]	**-6.0**	**-5.6**	**-6.5**	**-3.6**

Source: DHH Group, Value Track Analysis

DHH Group: Net Financial Position Structure FY22 – 1H23 – FY23 – 1H24

(€ mn)	**FY22**	**1H23**	**FY23**	**1H24**
Cash and Deposits (+)	10.6	10.9	10.2	13.2
Debt to Banks within 12 months (-)	-4.8	-4.7	-4.5	-5.1
Current Net Financial Position	**5.8**	**6.1**	**5.7**	**8.0**
Long term financial credits, i.e., BTP (+)	0.2	0.0	0.2	0.5
Debt to Banks over 12 months (-)	-12.1	-11.7	-12.4	-12.1
Non-Current Financial Position	**-11.9**	**-11.7**	**-12.2**	**-11.7**
Net Fin. Position [Net debt (-) / Cash (+)]	**-6.0**	**-5.6**	**-6.5**	**-3.6**

Source: DHH Group, Value Track Analysis

Fine-tuning of 2024E-onward estimates

1H results are coherent with our FY24E forecasts as far as EBITDA-EBIT and Net Profit are concerned, while a bit better on cash generation side and a bit lower on Top Line growth.

As a result, we're confirming our 2024E-25E-26E estimates but for:

- Slight Top Line downward revision (ca.~2/3% per annum);
- Upward revision of EBITDA-EBIT margins (ca. 50-100 bps);
- Slight Cash Flow upward revision (ca. €300k in FY24E and €100k in FY25E-26E).

DHH Group: New vs. Old estimates

	2024E			2025E			2026E		
(€ mn)	Old	New	Change	Old	New	Change	Old	New	Change
Value of Production	39.7	38.4	-3.2%	49.6	48.3	-2.5%	59.2	57.8	-2.3%
EBITDA Adjusted	**12.6**	**12.6**	**0.0%**	**15.6**	**15.6**	**0.0%**	**18.0**	**18.0**	**0.0%**
Adj. EBITDA Margin (%)	31.8%	32.9%	105bps	31.4%	32.2%	82bps	30.4%	31.1%	72bps
EBITDA	12.6	12.6	0.0%	15.6	15.6	0.0%	18.0	18.0	0.0%
EBITDA Margin (%)	31.8%	32.9%	105bps	31.4%	32.2%	82bps	30.4%	31.1%	72bps
D&A	5.3	5.3	0.0%	5.9	5.9	0.0%	6.9	6.9	0.0%
EBIT Adj.	**7.3**	**7.3**	**0.0%**	**9.7**	**9.7**	**0.0%**	**11.0**	**11.0**	**0.0%**
Adj. EBIT Margin (%)	18.4%	19.0%	60bps	19.6%	20.1%	51bps	18.7%	19.1%	44bps
EBIT	7.3	7.3	0.0%	9.7	9.7	0.0%	11.0	11.0	0.0%
EBIT Margin (%)	18.4%	19.0%	60bps	19.6%	20.1%	51bps	18.7%	19.1%	44bps
Pre-tax profit	6.3	6.3	0.0%	8.8	8.8	0.0%	10.2	10.2	0.0%
Net Profit Adjusted	**4.1**	**4.1**	**0.0%**	**5.7**	**5.7**	**0.0%**	**6.6**	**6.6**	**0.0%**
Net profit	4.1	4.1	0.0%	5.7	5.7	0.0%	6.6	6.6	0.0%
Net Fin. Position [Net debt (-)]	**-2.3**	**-2.0**	**0.3**	**-2.8**	**-2.7**	**0.1**	**-2.9**	**-2.8**	**0.1**
OpFCF a.t.	**6.3**	**5.5**	**-12.6%**	**6.7**	**6.5**	**-2.2%**	**7.0**	**7.0**	**0.0%**

Source: Value Track Analysis

Our new 2024E-26E forecasts can be summarized as follows:

- Value of Production expected to move from €38.4mn in 2024E to ca. €57.8mn at the end of the forecasted period (18.6% $CAGR_{23A-26E}$), summing up ca. 10% organic growth per annum and M&A deals aimed at doubling such pace;
- Operating profitability increasing over the next three years with EBITDA and EBIT Margin expected respectively at 31.1% and 19.1% by 2026E;
- Flattering Working Capital dynamics, implying a sound operating cash conversion with OpFCF / EBITDA ratio on average at ~60% over the next three years;
- Net Debt Position to remain substantially stable at ca. €2.8mn by 2026E year-end, with €46mn cumulated EBITDA more than covering €33mn of cumulated capex and M&A cash out.

DHH Group: 2023A – 2026E P&L

(€mn)	2023A	2024E	2025E	2026E
Value of Production	**34.6**	**38.4**	**48.3**	**57.8**
COGS	-17.6	-18.5	-23.6	-28.8
Labour costs	-6.6	-7.3	-9.2	-11.0
EBITDA	**10.4**	**12.6**	**15.6**	**18.0**
EBITDA Margin (%)	*30.0%*	*32.9%*	*32.2%*	*31.1%*
Depreciation & Amortization	-5.5	-5.3	-5.9	-6.9
EBIT	**4.9**	**7.3**	**9.7**	**11.0**
EBIT Margin (%)	*14.1%*	*19.0%*	*20.1%*	*19.1%*
Net Fin. Charges	-0.8	-1.0	-0.9	-0.8
Non-Operating Items	0.0	0.0	0.0	0.0
Pre-tax Profit	**4.1**	**6.3**	**8.8**	**10.2**
Tax	-1.9	-2.2	-3.1	-3.6
Reported Net Profit	**2.2**	**4.1**	**5.7**	**6.6**
EBITDA Adjusted	**11.5**	**12.6**	**15.6**	**18.0**
EBIT Adjusted	**6.0**	**7.3**	**9.7**	**11.0**
Adj. Net Profit	**3.3**	**4.1**	**5.7**	**6.6**

Source: DHH, Value Track Analysis

DHH Group: 2023A – 2026E Balance Sheet

(€mn)	2023A	2024E	2025E	2026E
Net Fixed Assets	35.7	35.4	42.3	49.8
Net Working Capital	-3.1	-4.1	-4.6	-5.3
Severance Pay and Other Funds	2.4	2.4	2.5	2.5
Total Capital Employed	**30.2**	**28.8**	**35.2**	**41.9**
Group Net Equity	**23.7**	**26.8**	**32.5**	**39.2**
Net Fin. Position [Net debt (-)]	**-6.5**	**-2.0**	**-2.7**	**-2.8**

Source: DHH, Value Track Analysis

DHH Group: 2023A – 2026E Cash Flow Statement

(€mn)	2023A	2024E	2025E	2026E
EBITDA	**11.5**	**12.6**	**15.6**	**18.0**
Δ NWC & Provisions	0.2	0.1	0.5	0.8
Capex (inc. RoU but not Fin. Inv.)	-6.2	-5.0	-6.4	-8.2
OpFCF b.t.	**5.6**	**7.7**	**9.6**	**10.6**
As a % of EBITDA	48%	61%	62%	59%
Cash Taxes	-1.9	-2.2	-3.1	-3.6
OpFCF a.t.	**3.7**	**5.5**	**6.5**	**7.0**
Financial Investments	-3.4	0.0	-6.3	-6.3
Net Financial charges	-0.8	-1.0	-0.9	-0.8
Change in Net Fin. Position	**-0.5**	**4.5**	**-0.6**	**-0.1**

Source: DHH, Value Track Analysis

2024 roadmap focused on AI infrastructure

DHH group rapidly evolving into top-tier "AI enabler"

On the "organic" business development side, DHH is reaping the benefits of its sound market position in the provisioning of B2B cloud computing services. Such market position is allowing the group to **seamlessly evolve into a top tier "AI Enabler"**.

Indeed, while the current focus remains on Cloud Hosting, Cloud Computing and Premium B2B Infrastructure-based ISP products, at the same time DHH has embarked on the **ambitious mission to develop high-performance hardware + software AI infrastructure**, to support businesses in running AI models and processing large datasets, enabling effective deployment of AI applications.

We note that DHH group's effort is boasting success, with the subsidiary Seeweb being already 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)*.

We underline that though current revenues from AI infrastructure related services are modest, the expectation is for a significant take up in the next years.

Market opportunity is huge

AI infrastructure market is expected to grow to $84.8bn by 2026E, 23.7% CAGR (*Source: Markets and Markets*) fuelled by the adoption of AI across industries such as healthcare, automotive, and finance.

DHH willing to compete on innovation, user friendliness, flexibility, "privacy"

AI infrastructure is a relatively young market where both tech giants and start-ups are competing with no clear outcome. Such a market scenario is not unknown to DHH as it is similar to what has been taking place in the cloud computing one in the latest years. And similar is the competitive approach that DHH group is pursuing, based on the will to:

- Offer products / technologies which are **flexible**, **scalable** and **user-friendly** thus allowing corporate clients to effectively leverage them. This implies a higher and higher take up of the utilization thus making DHH investments profitable.
  In the AI infrastructure field this means offering flexible access to specialized AI hardware like GPUs and NPUs, and providing not only support for LLM Training and Fine-tuning but also for the inference phase ("Inference as a Service");
- Avoid competition on "mass market" products where price competitiveness and size are the main competitive levers.
  In the AI infrastructure field this means not competing with giant "horizontal" platforms like ChatGPT, but rather focus on the needs of specific sectors / type of companies that look for secure and private AI environment in which to perform their AI efforts.
  This are the so-called **Private AI models,** specifically designed to handle sensitive and proprietary data, offering a secure and private environment for AI interactions while ensuring full compliance with data privacy regulations.
  Private AI models allow the end user to build a customized platform with their preferred tools, thereby enabling businesses in sectors such as finance, healthcare, legal services and more, to leverage AI's power without the associated risks of public AI platforms.

Go-to market roadmap

DHH aims to penetrate AI infrastructure market by:

- **Expanding AI infrastructure technology's scope** — Currently a proprietary feature of the Seeweb brand within Italian territories and hosted on domestic data centers — to encompass further corporate entities under the DHH umbrella situated in global locales, notably the Balkans;

- **Broadening its range of products and services** to encompass GPUs / NPU with specific specializations, extending beyond its existing collaboration with NVIDIA by involving the integration of new offerings, such as the new Tenstorrent cards;
- **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) and Small Language Models (SLMs).

Below is a recap of the AI services offered by DHH, with some early insights into future projects.

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

Cloud Server GPU is a GPU cloud-based server solution for AI and machine learning that offers exceptional computational power, enabling complex calculations by high-performance graphics processors where traditional processors are insufficient.

Key areas of application include machine learning, deep learning, data analytics, and more which are crucial for the development of AI models and the processing of large data volumes. Also, the service is well-suited for high-quality image and video rendering, extensive dataset processing, complex scientific computations, and cryptocurrency mining.

Herein are the core attributes of the service on offer:

- **Ready-to-Use GPU Servers** – GPU servers are readily available for tasks involving graphic computation, video processing, training, and data analysis. These servers are rack-mounted in data centers located in Italy (Frosinone and Milan), ensuring reduced latency. The infrastructure integrates technological and management advantages while ensuring full regulatory compliance, with data processed exclusively within Europe;
- **Sustainability** – The technology, while designed for exceptional power, aligns with sustainability objectives. With low energy consumption, Seeweb's graphics processors are installed in server farms powered by renewable energy sources and certified ISO14001, supporting environmentally conscious operations;
- **Immediate Activation** – Seeweb Cloud GPU instances provide access to a technology stack designed for immediate use. The required storage space is expandable through seamless integration with public cloud services. If additional storage is needed beyond the configurations offered, the infrastructure can be extended using Cloud ScaleOut Filer or other storage solutions;
- **Elastic Architecture** – The system offers flexibility for those requiring specific configurations in utilizing GPU systems or multi-GPU architectures. Infrastructure deployment and management can be handled using Infrastructure as Code (IaC) methods, fully supported by Terraform, allowing for scalable and adaptable infrastructure management;
- **Hourly Billing** – The billing model is based on hourly usage without charges for network traffic of the instances or API calls related to the file storage product. Once the server is activated with the necessary specifications via the control panel, usage is calculated on an hourly basis and billed at the end of the month, without the need for upfront payments.

We note that utilizing this technology requires a **high level of expertise from the client**, as advanced skills are essential to effectively manage and optimize these powerful resources.

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

The innovative **Serverless GPU** product is aimed at enhancing AI applications by means of Kubernetes, i.e., an open-source system for automating containerized applications, to manage and orchestrate GPU resources.

Unlike traditional Cloud Server GPU, **Serverless GPU strongly reduces the need for in-depth IT architectural skills**, **functioning more like a software platform than a hardware-based solution**, making it more accessible to a broader range of users.

The intention is to bring AI capabilities closer to the developer community by simplifying remote GPU access across any Kubernetes cluster by leveraging the k8sGPU agent, which enables the creation of virtual nodes that utilize remote GPUs as if they were local. This setup supports demanding machine learning training and inference tasks with high performance and reduced downtime.

Going in details, major advantages embrace:

- **Simplified Management** – Offers a software platform-like approach that minimizes the need for in-depth IT architectural skills, as the product is more similar to a software platform than to a hardware based one;
- **Real-Time Flexibility** – Possibility to scale on demand GPU resources up or down in response to real- time requirements, thereby avoiding delays and costs associated with physical hardware;
- **Cost-Effective & Sustainable** – Pay-as-you-use model lowers capital expenditures on GPU hardware and reduces overall power consumption through dynamic resource allocation;
- **Seamless Integration** – Integrates with existing IT environments, making it ideal for development teams wishing to enhance AI server performance with no pipeline migration.

In line with serverless principles, this service operates on an on-demand, hourly billing model, with periodic usage reports to maintain control over consumption. This integrated approach not only simplifies and accelerates AI development but also offers a sustainable, scalable, and cost-effective GPU solution tailored to meet the diverse needs of modern computing environments.

3 AI-as-a-Service product: Cloud Server NPU or AI Accelerator

Back on 2nd July 2024, DHH, via its subsidiary Seeweb, has launched a pioneering **Cloud Server NPU** (i.e., *Neural Processing Units*) or **AI Accelerator product**, aimed at boosting AI inference workloads.

The **AI Accelerator** product incorporates NPUs developed by state-of-the-art Tenstorrent (*i.e., a VC-backed leading developer of next-generation computing hardware*) cards, designed to handle AI processing tasks efficiently.

Unlike general-purpose GPUs, these NPUs are specialized for neural network acceleration, making them suitable for computations like speech recognition, object detection, and video editing.

Below are the key features of the service being provided:

- **Scalability** – Users can select the appropriate AI Accelerator instance type from the Seeweb control panel, choosing configurations based on their specific workload requirements. This setup allows for real-time resource scaling, making it suitable for companies of varying sizes and computational demands. Multiple cloud servers can be activated on demand, with flexible billing options such as hourly pay-per-use and discounts for longer-term reservations;
- **Cost Efficiency** – By leveraging NPUs instead of GPUs, the product reduces costs related to hardware and energy consumption. This pay-as-you-use model allows users to manage expenses effectively, avoiding the need for substantial investments in physical infrastructure and without incurring high operational costs;
- **Sustainability** – NPUs consume less energy than traditional GPUs, providing an environmentally friendly solution that does not compromise on performance. By dynamically allocating computational resources, the Cloud Server NPU minimizes overall power consumption while still delivering top-tier computational power for AI tasks.

We note that the Cloud Server NPU provides a robust platform for full-stack development of SLMs and other AI applications and is **ideal for development teams looking to enhance their AI capabilities without the complexities of managing extensive hardware infrastructure**.

4 Next step: Chat-based Platform

Looking forward, we hint that DHH is planning to introduce AI infrastructure products specifically designed for **Private AI models**. We expect news on this side by the year end.

Valuation Update

Lower ERP and higher peers' multiples are driving upwards DHH fair value per share at €29.3 (up from €27.0 p/s) which would imply ca. €143mn market capitalization, as simple average of: i) DCF model (€29.9, up from €27.8); ii) SOTP based Peers' analysis (€28.6, up from €26.3).

At fair value, DHH would trade at 3.7x-3.0x EV/Sales and 11.4x-9.3x EV/EBITDA 2024E-25E, vs. Peers trading at 5.6x-5.1x EV/Sales and 15.6x-16.3x EV/EBITDA 2024E-25E respectively.

We note that at current monthly average stock market price, the Stock Option plan currently in place might imply (if exercised) the issuance of up to 306k new DHH shares.

SOTP based Peers' Analysis

Stock Market Multiples Benchmark

The whole panel of peers is trading at median **5.6x EV/Sales, 15.6x EV/EBITDA, 31.3x P/E Adj. 2024E**, with DHH trading at ca. **25%-45% discount** on 2024E-25E multiples. However, splitting the clusters, we see that:

- **Cloud Computing & Internet Access** peers trade at a median 10.4x EV/EBITDA and 30.4x EV/EBIT 2024E;
- **AI Enablers** stocks show the most demanding multiples, as predictable. Indeed, the sector is vastly hyped and trades at a very high median 22.8x EV/Sales.

DHH: Peers' stock trading multiples

Company	EV / Sales (x)		EV / EBITDA (x)		P/E (x)	
	2024E	2025E	2024E	2025E	2024E	2025E
Cloud Computing / Cloud Hosting						
WIIT	5.2	4.6	14.9	12.5	37.5	27.7
Beeks Financial Cloud	5.4	4.0	14.8	11.0	nm	61.2
IONOS	2.7	2.3	9.2	7.5	17.0	13.3
Gigas Hosting	1.9	nm	7.8	nm	nm	nm
OVH	2.0	1.8	5.2	4.7	nm	nm
Go Daddy	5.7	5.1	19.3	16.4	25.0	25.0
Cyber Folks	3.1	2.7	10.4	16.3	22.0	21.1
Average	**3.7**	**3.4**	**11.7**	**11.4**	**25.4**	**29.7**
Median	**3.1**	**3.4**	**10.4**	**11.7**	**23.5**	**25.0**
AI Enablers						
E2E	33.6	27.9	67.2	55.7	nm	nm
Nvidia	22.8	16.0	35.3	24.6	43.2	31.8
CloudFlare	16.6	12.9	84.6	65.1	nm	nm
Nextdc	25.3	25.4	50.2	50.9	nm	nm
DigitalOcean	6.3	5.5	16.4	14.1	64.2	50.1
Average	**20.9**	**17.5**	**50.7**	**42.1**	**53.7**	**41.0**
Median	**22.8**	**16.0**	**50.2**	**50.9**	**53.7**	**41.0**
Total Average Peers	**10.9**	**9.8**	**27.9**	**25.3**	**34.8**	**32.9**
Total Median Peers	**5.6**	**5.1**	**15.6**	**16.3**	**31.3**	**27.7**
DHH @ market price	**3.0**	**2.4**	**9.3**	**7.6**	**28.4**	**20.3**
DHH discount vs Average	*-72%*	*-75%*	*-67%*	*-70%*	*-18%*	*-38%*
DHH discount vs Median	*-45%*	*-52%*	*-41%*	*-54%*	*-9%*	*-27%*

Source: Market Consensus, Value Track Analysis

SOTP Valuation

Our SOTP valuation incomes a fair equity value of **€28.6** p/s, obtained by:

- Applying peers' EV/EBITDA 2024E Cloud Computing & Cloud Hosting's cluster median (10.4x) to **DHH stand-alone** (i.e., excluding AI Infrastructure business segment) EBITDA;
- Applying peers' EV/Sales 2024E AI Enablers' cluster median (22.8x, with a 50% discount applied, resulting in a fair multiple of 11.2x) to **AI Infrastructure + Other Innovative Products segment** Sales (we now forecast some €1.2mn in 2024E, up from previous €0.5mn to due to the solid 1H24 performance).

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

Assumptions	2024E
Value of Production	**38.4**
Cloud Computing & Cloud Hosting	37.2
AI Infrastructure / Other Innovative Products	1.2
EBITDA	**12.6**
Cloud Computing & Cloud Hosting	12.2
AI Infrastructure / Other Innovative Products	0.4

Source: Value Track Analysis (*) Value Track estimates

DHH: Sum of the Parts Valuation

Fair Equity Value (€mn)	Cloud Computing & Cloud Hosting	AI Infrastructure & Other Innovative Products	Total
Peers EV/Sales 2024E (x)		22.8	
Peers EV/EBITDA 2024E (x)	10.4		
Discount vs. Peers (%)	*0%*	*50%*	
Fair Multiple	**10.4**	**11.4**	
Fair Enterprise Value (€mn)	**126.5**	**13.7**	**140.2**
As a % of Total	*90%*	*10%*	*100%*
Net Financial Position 2024E (€mn)			-2.0
Adjustments 2024E			1.5
Fair Equity Value			**139.7**
NOSH			4.9
Fair Equity Value p/s (€)			**28.6**

Source: Market Consensus, Value Track Analysis

Discounted Cash Flow Model

Our DCF model is based on a "target" capital structure with Net Debt representing 30% of the Capital Invested. The WACC, derived using an expanded CAPM approach, is ca. 8.3%. 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), 5.19% Italian ERP (recently adjusted downwards from previous 5.62%, source: *Damodaran*) 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).

The outcome of the DCF model is **€29.9 fair value p/s**.

DHH: DCF Model

€mn	
PV of future cash flows 2024E-2031E	42.3
PV of Terminal value	108.9
Fair Enterprise value	**151.3**
Implied EV/ Adj. EBITDA 24E-25E (x)	12.0x-9.7x
Net Fin. Position 2023A	**-6.5**
Minorities (net of related debt)	-1.6
Peripheral assets	3.1
Fair Equity value	**146.2**
Number of shares (mn)	4.9
Fair Equity value per share (€)	**29.9**

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
€ 21.0	8.2	6.7	14.2	10.7	25.1	17.9
€ 22.0	8.6	7.0	14.8	11.2	26.3	18.8
€ 23.0	9.0	7.3	15.5	11.7	27.4	19.6
€ 24.0	9.3	7.6	16.2	12.2	28.6	20.5
€ 25.0	9.7	7.9	16.8	12.7	29.8	21.3
€ 26.0	10.1	8.2	17.5	13.2	31.0	22.2
€ 27.0	10.5	8.6	18.2	13.7	32.2	23.1
€ 28.0	10.9	8.9	18.8	14.2	33.4	23.9
€ 29.3	**11.4**	**9.3**	**19.7**	**14.9**	**35.0**	**25.0**

Source: Value Track Analysis

Appendix: DHH Investment Case

DHH at a glance

DHH (or "the Group") is a tech group dedicated to **reshaping internet infrastructure through the integration of next-generation technology and artificial intelligence**. Based in Europe, the group leverages open-source technologies to enhance digital connectivity across various industries and regions, and offers its products in a subscription model (**SaaS/IaaS/PaaS**) to more than 120.000 corporate and professional customers. Founded back in **July 2015**, the **Group has expanded significantly through conspicuous M&A activity**, finalizing close to 20 deals.

Key points of DHH investment case

In our view, DHH stands out at the forefront of technological innovation and ethical business practices, excelling for the following key points:

 # 1 – Ideal mix of products / solutions;

 # 2 – Optimal market positioning in space and time;

 # 3 – Well carved growth strategy combining organic and M&A levers;

 # 4 – Highly skilled Top Management with "skin in the game";

 # 5 – Outstanding Financial profile;

 # 6 – Acting with a highly responsible approach.

1 - Ideal mix of products / solutions

DHH Group B2B cloud computing and premium B2B internet access product portfolio is the result of a proactive approach aimed at maintaining a technological edge over competitors and banks on an **extensive proprietary physical and network infrastructures** managed by some subsidiaries (Seeweb, Evolink and Connesi).

We can cluster different families of products depending on the time of introduction in DHH portfolio:

- 1st wave: **Cloud Hosting products**, e.g. Shared hosting, Virtual Private Server (VPS) and more;
- 2nd wave: **Cloud Computing products**, such as Cloud Servers Rentals dispensed in the PaaS, or IaaS models. These products have become relevant with reverse merger with Seeweb in 2020;
- 3rd wave: **Premium B2B infrastructure-based Internet Service Provisioning products**, such as Premium Internet Connectivity, VOIP, VPN, WAN. These products got relevant following a series of acquisitions in 2021 and 2022;
- 4th wave: **AI infrastructure products**. DHH, though its subsidiary Seeweb is included among the top 15 Cloud Server Providers for GPU-Powered LLM fine-tuning and training (Source: online publication *Towards AI).*

2 - Optimal market positioning in space and time

Cloud computing and Cloud hosting, the two primary sectors in which DHH currently operates, are experiencing significant growth rates. Indeed, **the market for cloud computing and web-hosting services is projected to exceed $3.1tn by 2030, more than doubling its size from 2022**.

On top of these highly growing markets, we underline that **AI infrastructure market is expected to grow to $84.8bn by 2026E, 23.7% CAGR** (*Source: Markets and Markets*) fuelled by the adoption of AI across industries such as healthcare, automotive, and finance.

We remind that DHH is currently active in Italy (accounting for some 68% of DHH Group Revenues from Sales), Switzerland, Bulgaria and Balkan areas (Slovenia, Croatia, Serbia) i.e., geographies expected to post higher-than-average growth rates ahead, as the current digital adoption is growing but, in most cases, (Slovenia is an exception) still below the EU average.

3 - Well carved growth strategy combining M&A levers

DHH is pursuing an aggressive growth strategy that adds M&A to organic growth. In the last nine years, it has completed **close to 20 M&A transactions with an average total ROI close to 140%**. The result of the above-mentioned M&A activity is that DHH Group can be viewed as an **ecosystem of independent entities** unified by a shared theme that empowers tech entrepreneurs to innovate, and exchange best practices. In this scenario, DHH SpA acts as holding company, providing broad business and administrative support and ensuring seamless operations / strategic guidance.

4 - Highly skilled Top Management with “skin in the game”

DHH’s top management includes highly skilled professionals such as:

- **Antonio Baldassarra – Chief Executive Officer.** Founder of Seeweb and co-founder of DHH, he boasts more than 25 yy experience in Electronics, Telecommunications and Computer Science.
- **Giandomenico Sica – Executive Chairman**. Co-founder of DHH, he also is the founder of Grafoventures, his holding focused on IT industry SMBs.
- **Tamara Arduini – Chief Financial Officer.** With over two decades of experience in accounting administration and finance, she previously served as the CFO of Seeweb.
- **Matija Jekovec – Chief Operating Officer.** Co-founder of Klaro in 2003, beginning as a developer before transitioning into an R&D managerial role.

Worthy to note, the co-founders (Mr. Baldassarra and Mr. Sica) have a lot of “skin in the game” as they are controlling more than 40% of share capital.

5 - Outstanding Financial profile

As a result of its well carved business model, DHH boasts several notable financial features such as:

- High scalability;
- Extremely high incidence (ca. 94%) of recurring revenues;
- Strong client retention (churn rate lower than 10%) with long revenue periods.
- Strong cash flow generation, with OpFCF b.t. (defined as Adj. EBITDA – Tangible and Intangible Capex ± ΔNWC ± Δ Provisions) always in excess of 50% of EBITDA.

6 - Highly responsible ESG approach

DHH's sustainability strategy is firmly rooted in integrating responsible practices across every level of the organization, from daily operational management to executive decision-making. As an example of their commitment to ESG themes, we underline that DHH, recognizing the significant impact of power consumption in data centers and throughout product lifecycles, is mitigating its carbon footprint by: 1) Enhancing operational energy efficiency; 2) Transitioning to renewable energy sources; 3) Promoting responsible disposal methods for end-of-life equipment. Moreover, through Connesi and Seeweb, DHH Group has launched several initiatives to minimize environmental impacts and cut emissions.

A few challenges to face

As far as challenges to face we would identify the following:

- **Competitive scenario crowded with tech giants and large local players**. However, despite the presence of the Big Tech DHH has a strong position in its core markets for the following reasons: price effectiveness, flexibility and customization capability, local presence;
- **Italian stock market, i.e., possibility to raise money at high valuation**. Tech companies need fresh money to accelerate at maximum their growth, both organic and M&A one.

DHH is not in the best position to raise fresh money to maximize its organic and M&A growth due to the features of Italian EGM stock market, where it is listed. However, we have to note that DHH is a steady cash generator so every year it can deploy money in organic and M&A growth projects.

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