

Accumulate

Recommendation unchanged

Share price: EUR 8.50

closing price as of 31/01/2018

Target price: EUR 8.10

Target Price unchanged

Upside/Downside Potential -4.7%

Reuters/Bloomberg DMG.MI/DM IM

Market capitalisation (EURm) 56

Current N° of shares (m) 7

Free float 37%

Daily avg. no. trad. sh. 12 mth 18

Daily avg. trad. vol. 12 mth (m) 354.37

Price high/low 12 months 4.00 / 8.82

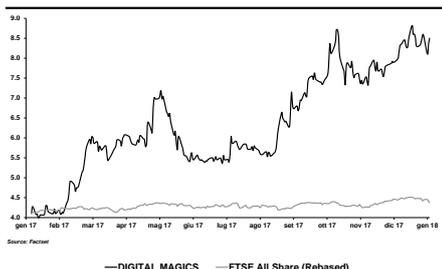
Abs Perfs 1/3/12 mths (%) 7.73/8.28/104.21

NAV (EURm) 58.2 100%

NAV per share fully diluted: EUR 8.1

Shareholders

StarTip 23%, management 31%, D.lervolino 6%, Innogest 6%



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Much more to come

The facts: The Italian business incubator held a presentation yesterday providing a fresh overview of the past activity and a reading of the strategy through new initiatives.

Our analysis: The company is planning to invest around EUR 3.5m this year (+35% compared to 2017) in favor of 10-15 new start-ups. This compares with FY 2017 during which there were 18 new start-ups, including those acquired indirectly with the participation in Withfounders.

Acceleration initiatives like the one launched for the selection of 3 start-ups in the Fintech sector demonstrate the strong attraction of Digital Media also among traditional operators and can be replicated in other segments.

In the future we see Digital Magic demonstrating a stronger commitment on a more limited number of projects: a strategy that is promoted by the management of Tamburi & Partners (holding through StarTIP 23% of Digital Magics). This will limit the potential dilution that is typically faced in the following rounds of fresh capital by the accelerator. Since 2011 Digital Magics raised over € 50.2 million for incubated start-ups, of which EUR 23m directly invested and EUR 27.7m by third-party investors, and today has 61 active participations. StarTip will be acting as venture capital with ticket above 1 million eur and a total of EUR 100m to invest over the coming years.

We appreciate a more convinced capital commitment by the company and a less "statistical" diversification of the portfolio in favour of very specific trends. Artificial Intelligence and Enterprise 4.0 sector, are seen to offer the highest potential out of 9 sector targeted by DM. This pretty extensive reach, on the one side is justified by domestic market (insufficient for a vertical incubator) while on the other hand is requiring more partnership in the more specialised industries.

Also the launch of "Open Innovation" programs will be part of the 2018 focus: we remind that in this case is DM to promote internal innovation working directly in the team of the partner that are well established operator of a traditional business. This creates a powerful economic environment of partnerships very attractive for new start ups. Some 10 new projects are targeted for this year.

Extended territorial reach in Italy and the support to Talent Garden co-working campuses new openings and int'l partnerships complete a very credible plan.

Last year the return for shareholders was boosted by the attributed warrants that were exercised in October for around 45% of the total. Results are due to be published on March 15th. The stock was up 203% last year and saw the daily average turnover multiplied by 12x compared to an average 5x in the am market.

Conclusion & Action: We understand DM will demonstrate a stronger capital commitment on a more limited number of projects: a strategy that is promoted by the management of Tamburi Investment Partners (holding 23% of DM through StarTIP). This will limit the potential dilution in the following rounds of fresh capital. StarTip will be acting as venture capital with tickets above 1m euro and a total of EUR 100m to invest; this will perfectly complement the activity of the incubator in a domestic market still poor of venture capital.