

Digital Magics

Sponsored Research

Italy | Financial Services Holdings



Analysar

22 March 2023

Buy

Recommendation unchanged

Share price: EUR 3.14

closing price as of 21/03/2023

Target price: EUR 5.40

from Target Price: EUR 5.80

Upside/Downside Potential 72.0%

Reuters/Bloomberg

DMG.MI/DM IM

Market capitalisation (EURm) 35

Current N° of shares (m) 11

Free float 37%

Daily avg. no. trad. sh. 12 mth (k) 5

Daily avg. trad. vol. 12 mth (k) 24.45

Price high/low 12 months 3.74 / 3.00

Abs Perfs 1/3/12 mths (%) -5.42/-3.09/-12.78

Estimated NAV breakdown (EURm)

NAV unlisted companies 51.9 88%

Consultancy business 5.5 9%

Write Offs -3.3 -6%

Net Financial position 5.0 8%

Total Net Asset Value 59.1 100%

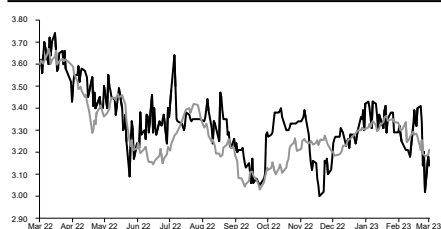
NAVPS (EUR) 5.372

Share price*: EUR 3.14

Discount/(Premium) to NAV 0.0%

Shareholders

StarTIP 23%; Innogest 6%;



Source: FactSet

DIGITAL MAGICS

FTSE AIM Italia (Rebased)

Analyst(s)

Andrea Devita, CFA

andrea.devita@bancaakros.it

+39 02 4344 4031

Gian Marco Gadini

gianmarco.gadini@bancaakros.it

+39 02 4344 4236

FY22 results: portfolio fair value impacted by Hyperloop

The facts: the company published its FY 2022 results yesterday.

Our analysis: we summarize the main items of the publication.

Digital Magics: FY 2022 results (EUR K)

EUR thousand	H1 2021	H2 2021	FY 2021	H1 2022	H2 2022	FY 2022
Revenues	1,027	1,681	2,708	1,762	2,671	4,433
Value of Production	1,254	1,956	3,210	2,285	2,604	4,889
Labour cost	-300	-385	-685	-456	-432	-888
EBITDA	-225	-327	-552	242	-82	160
EBIT	-478	-748	-1,226	-32	-480	-512
Write downs	-239	-1,850	-2,089	-144	-1,632	-1,776
Net Income	-769	-2,577	-3,346	977	-2,164	-1,187
Inv. in comp. portfolio	820	1,480	2,300	480	1,120	1,600
Net debt (cash)	2,965	-5,604	-5,607	-4,987	-3,041	-3,041

Source: Company data; H1 2021 P&L data does not include The Doers.

Revenues and EBITDA are not crucial in this business. Nonetheless, we highlight the significant growth in revenues in H2 22, likely due to the Open Innovation and consultancy activity.

In FY 2022, DM invested EUR 1.6m in the portfolio (o/w EUR 1.1m in H2). The FY 22 results included the partial exit from Cardo that was completed in H1 22, which generated a EUR 1.2m capital gain (or a 17x return). Third party investors poured in another EUR 21.6m, thus leading to some EUR 23.6m in total funds raised by the start-up portfolio.

The current portfolio includes 120 operating companies (99 as at Jun 30, 2022, 84 as at Dec 31, 2021). DM invested in 41 new companies (o/w 15 in H1 22), mostly through the acceleration programs Fin-Tech, Magic Spectrum, Habismart, Magic Youman and Magic Mind.

Net cash position declined by c. EUR 1.6m, including the proceeds from the capital increase reserved to LUISS university (EUR 2.5m, closed on Jan 12, 2022), the aforementioned investments and divestments, and the EUR 1.6m increase in working capital (mainly receivables and payables owed by/to the portfolio companies). The gross cash available was EUR 6.2m at the end of Dec 22.

DM also reported that the value of the company's portfolio, net of the exit from Cardo, stood at EUR 55m (EUR 61m at the end of Jun 22 and EUR 58m at the end of Dec 2021) and a book value of EUR 13.4m. The decline is mainly due to the write-down of the Hyperloop stake (EUR 6m), after the aborted business combination with Forest Road Acquisition. On the other hand, the company mentioned the increase in the value of Viceversa (EUR 2.2m), Mare Engineering, Macingo and Aworld (c. EUR 0.5m each).

Conclusion & Action: The trigger for DM is the recently announced M&A with LVenture, which ought to take place by the end of the year based on the conditions of the non-binding term-sheet signed on Mar 10, 2023. Valuation-wise, the impact of the revised fair value of Hyperloop is c. EUR 0.4/sh for DM. Although we had already included a discount on the fair value implied by a rather old "work-for-equity" funding round, we cut our previous value (EUR 15m) by roughly the same amount or EUR 5m. Therefore, we trim our target price to EUR 5.4/sh. Buy confirmed.