



# Digital Magics

Sponsored Research

Italy | Financial Services Holdings

Analysed

13 March 2023

## Buy

Recommendation unchanged

Share price: EUR 3.40

closing price as of 10/03/2023

Target price: EUR 5.80

Target Price unchanged

Upside/Downside Potential 70.6%

Reuters/Bloomberg

DMG.MI/DM IM

## Market capitalisation (EURm)

Current N° of shares (m)

Free float 37%

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

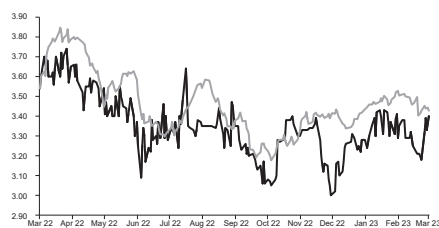
Daily avg. trad. vol. 12 mth (k) 10.81

Price high/low 12 months 3.74 / 3.00

Abs Perfs 1/3/12 mths (%) 1.49/13.33/-3.95

## Shareholders

StarTIP 23%; Innogest 6%;



Source: FactSet

DIGITAL MAGICS FTSE AIM Italia (Rebased)

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## Non-binding term-sheet signed with LVenture

**The facts:** DM and LVenture Group (LVG) announced on March 10, a non-binding term-sheet concerning the business combination between the two companies.

**Our analysis:** LVG is an early-stage venture capital player listed on Euronext Growth Milan. Incorporated in Rome in 2013, it specialises in the pre-seed and seed financing and offers advisory services to corporations for business acceleration. It boasts more than 30 partnerships across Italy to scout start-ups and more than 60 programs in place with corporations, universities and institutions. The main shareholders of LVG, are LV.EN. Holding (owned by LVG's main managers) and the LUISS university, with a 28% and 13.6% stake respectively. Since inception, LVG has invested EUR 23m in more than 130 start-ups and attracted c. EUR 113m from co-investors. According to PitchBook, at the end of H1 22 LVG was the 2<sup>nd</sup> most active VC company in Italy after CDP Venture Capital, and the 11<sup>th</sup> in Europe. At the end of Jun-2022, LVG had a net portfolio value of c. EUR 30.7m, with an equity fair value of EUR 27.9m and a net debt of EUR 3.5m.

The agreement aims at creating a leading integrated player in the Italian venture capital market, with a valuable standing at the European and international level, by leveraging on the two companies' knowledge and partnership networks. **The deal is subject to conditions precedent to be defined (including a capital increase at LVG) and is expected to be closed by the end of 2023.**

The agreement provides for the merger of DM into LVG. **The value of the two companies in the combined entity ought to be in the range of 61.5%/38.5% ÷ 66.5%/33.5% for DM and LVG respectively.** These ranges are mostly in line with the relative market caps, portfolio values and other fundamentals of DM and LVG.

The corporate governance structure that DM and LVG agreed on envisages the LVG CEO and founder, Mr. Luigi Capello, as CEO of the new company and DM's executive chairman, Mr. Marco Gay, as the executive chairman.

## DM and LVG: summary of key financial data as at 30 June 2022)

(EURm)	DM	% of comb.	LVG	% of comb.	DM+LVG
# startups	99	50%	100+	50%	200+
start-up book value	14.1	51%	13.6	49%	27.7
other financial assets	2.25	45%	2.71	55%	4.96
other fixed capital	2.55		0.86		3.41
NWC	1.59		-0.14		1.45
net invested capital*	20.5	55%	17.0	45%	37.5
(net debt)/cash	4.99		-3.50		1.49
equity value*	25.5	65%	13.5	35%	39.0
portfolio value (30-Jun-22)*	61.0	67%	30.7	33%	91.7
equity fair value*	72.4	72%	27.9	28%	100.3
last 6m avg price (EUR/sh)	3.27		0.34		
avg. mkt cap	36.0	68%	16.9	32%	52.8

Source: Banca Akros on companies' data. (\*) DM reports under the Italian GAAP principles, while LVG under the IFRS principles. As such, DM's equity value is the reported figure, while for LVG equity value is based on Akros' adjustment (net of the effect of the IFRS fair value accounting). On the other hand, the "equity fair value" for DM is based on the external valuation of the start-up portfolio, while for LVG it is the reported equity value.

**Conclusion & Action:** significantly positive strategic implications for DM, as the combination with LVG would bring in a new network of partnerships with industrial companies and universities, leveraging the "double centre" (Milan and Rome) of the combined entity and creating a relevant player at the national and European level. The merger ratio (before a possible capital increase at LVG) seems broadly in line with current market caps and the companies' fundamentals.