

# Digital Magics

Sponsored Research

Italy | Financial Services Holdings



Analysar

29 June 2023

## Buy

Recommendation unchanged

Share price: EUR 3.14

closing price as of 28/06/2023

Target price: EUR 5.20

Target Price unchanged

Upside/Downside Potential 65.6%

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) 4

Daily avg. trad. vol. 12 mth (k) 6.87

Price high/low 12 months 3.64 / 2.96

Abs Perfs 1/3/12 mths (%) 0.64/0.32/-3.68

### Estimated NAV breakdown (EURm)

NAV unlisted companies 52.2 91%

Consultancy business 5.5 10%

Write Offs -3.2 -6%

Net Financial position 3.0 5%

Total Net Asset Value 57.5 100%

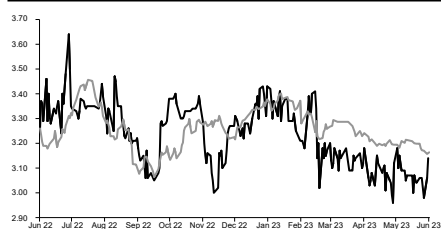
NAVPS (EUR) 5.226

Share price\*: EUR 3.14

Discount/(Premium) to NAV 0.0%

### Shareholders

StarTIP 23%; Innogest 6%;



Source: FactSet

DIGITAL MAGICS FTSE AIM Italia (Rebased)

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## Green light to the merger with L-Venture

**The facts:** Digital Magics (DM) and LVenture Group (LVG) announced that the respective boards have approved the merger of the two companies, as originally disclosed on March 10.

**Our analysis:** the original non-binding agreement was announced on March 10. The main terms of the deal are in line with those disclosed on that date, namely:

**Deal structure.** Before the deal, LVenture is going to launch a EUR 2.5m capital increase reserved to its shareholder Luiss University. Thereafter, the merger will imply that DM's shareholders will receive 46 shares of the Combined Entity every 5 DM shares owned.

**Shareholders book.** After the deal, the current shareholders of DM will hold 63% of the combined entity, the shareholders of LVG 37%, which is in line with the range announced last March (61.5%/38.5% + 66.5%/33.5% for DM and LVG respectively. These ranges are also broadly in line with the relative market caps (62.3/37.6% after LVG capital increase), portfolio values and other fundamentals of DM and LVG. According to DM's estimates, the main shareholders of the NewCo will be StarTIP S.r.l. (13.11/12.75% of voting rights), LUISS (11.73/11.41%), LV.EN. Holding S.r.l., (9.35/10.17%).

**Governance.** The main shareholders of the two companies, namely LV.EN. Holding S.r.l., LUISS and Luigi Capello for LVG and StarTIP S.r.l., Alberto Fioravanti, Marco Gabriele Gay, WebWorking S.r.l. for DM have signed a shareholders' pact, involving 42.21% of the shares post deal. LVG's CEO and founder, Mr. Luigi Capello, will be the CEO of the new company while DM's executive chairman, Mr. Marco Gay, will be the executive chairman.

### DM and LVG: summary of key financial data as at 31 Dec 2022

(EURm)	DM	% of comb.	LVG	% of comb.	DM+LVG
# startups	120	55%	100+	45%	220
start-up book value	13.35	49%	13.8	51%	27.2
other financial assets	2.42	52%	2.27	48%	4.69
other fixed capital	2.26		0.78		3.04
NWC	2.22		0.10		2.32
net invested capital*	20.3	54%	16.9	46%	37.2
(net debt)/cash	3.04		-4.78		-1.741
equity value*	23.3	66%	12.2	34%	35.5
portfolio value (31-Dec-22)*	55.0	64%	30.7	36%	85.7
equity fair value*	64.9	71%	26.8	29%	91.7
last 6m avg price (EUR/sh)	3.21		0.34		
avg. mkt cap	35.3	67%	17.1	33%	52.3

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:** Positive implications in terms of size, diversification, wider network of relationships with corporates, start-ups and universities.