



**H-FARM**

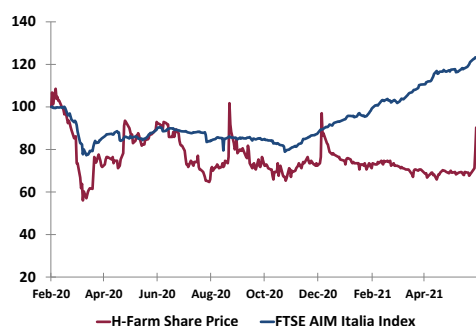
**FLASH NOTE**

## NEUTRAL

**Current Share Price (€): 0.31**

**Target Price (€): 0.34**

### H-Farm – 16m Share Performance



Source: S&P Capital IQ - Note: 3/02/2020=100

### Company data

ISIN number	IT0004674666
Bloomberg code	FARM IM
Reuters code	FARM.IM
Industry	Financials
Stock market	AIM Italia
Share Price (€)	0.31
Date of Price	07/06/2021
Shares Outstanding (m)	128.7
Market Cap (€m)	39.2
Market Float (%)	49.4%
Daily Volume	1,858,500
Avg Daily Volume YTD	53,974
Target Price (€)	0.34
Upside (%)	11%
Recommendation	OUTPERFORM

### Share price performance

	1M	3M	1Y
H-Farm - Absolute (%)	35%	27%	-2%
FTSE AIM Italia (%)	6%	19%	36%
1Y Range H/L (€)		0.35	0.22
YTD Change (€) / %		0.05	20%

Source: S&P Capital IQ

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## Earn-out from Unicorn Depop sale to Etsy

### €6m consideration for H-Farm, Depop incubator

H-Farm is going to receive an earn-out as a consequence of Etsy, US marketplace listed on NASDAQ, \$1.6bn acquisition of Depop, a 2011-born start-up backed by H-Farm and exited in 2018. The closing, expected to occur in Q3 2021, will enable H-Farm to activate the earn-out clause worth €6m agreed in 2018 with buyers.

Closing is subject to:

- certain adjustments for Depop's working capital, transaction expenses, cash and indebtedness
- certain deferred and unvested equity for Depop management and employees
- Anti-Trust approval in US and UK

According to management, by the additional cash inflow H-Farm would reach a total return of €11m over a €0.8m initial investment in Depop.

Depop is a community-powered marketplace to buy and sell unique fashion. The Company's 2020 gross merchandise sales and revenue were approximately \$650 million and \$70 million, respectively, each increasing over 100% YoY.

### Target Price €0.34 per share (from €0.31), NEUTRAL rating (from OUTPERFORM)

We notice that, as long as the deal and consideration will be confirmed, H-Farm would realize and exceed within the current year the entire forecasted 2020-24 proceeds from venture portfolio exits.

In anticipation of final consideration disclosure, as a preliminary estimate we deem appropriate to expect additional cash inflows conservatively discounted within the range €4m-€5m to factor-in closing and price adjustment risk. Our updated valuation, adjusted for this one-off effect, yields a target price of €0.34 per share, from €0.31 of our prior note, implying a 11% upside potential on H-Farm's stock price at €0.31. Thus, we assign a NEUTRAL rating on the stock (from OUTPERFORM).

## 1. INVESTMENT CASE

### Company

H-Farm S.p.A., founded in 2005 and listed on AIM Italia since 2015, operates through three business units oriented by and to digital culture and competencies:

- H-Farm Education, which provides full range education offer by K12 International schools, from Early to High School, undergraduate, post-graduate and executive courses, such as a Degree in Digital Management in partnership with Venice Ca' Foscari University. H-Farm can also rely on partnerships with international schools such as Chichester University (UK), Luxembourg School of Business and Zagreb School of Economics. The programs are completed by a computer graphics training center and are targeted at individuals, companies and professionals
- H-Farm Consultancy, which provides digital and business transformation services, such as sales, brand and customer relationship strategies, digital marketing and artificial intelligence applications
- H-Farm Portfolio, which manages seed and post-seed start-ups focused on digital

From the IPO to date, H-Farm has substantiated, through its investment program, its mission of being a one-of-a-kind multidisciplinary innovation platform, relying on digital transformation, integrated technology and education offer with a global footprint.

Key figures:

- 2015 to 2020, revenues double from €24m to over €50m,
- Business unit breakdown in 2020: Consultancy 70%, Education 27%, Portfolio & others 3%
- Around 2,000 students, over 150 teachers. 2021 capacity over 3000
- Over 300 Consultancy professionals and 250 clients
- Headcount: 570
- Over €100m invested by Cattolica Assicurazioni and CDP in the 50.000sqm H-Farm Campus near Venice, completed in September 2020, and leased for 30 years to the Company

### Coping with the digital ecosystem

Major trends such as accelerated globalization and digitization are generating growing demand for digital and marketing competencies. Moreover, there is a gap competence which calls for dedicated education paths and continuous learning about ever changing digital landscape. Those trends imply a growing need for change in schooling models to train young future professionals ready and able to meet industry transformation needs. H-Farm vision is to be a front runner at the crossroads of the calls for new skills, with its offering of digital consultancy services, while providing the next generation education.

## Drivers

### Industry drivers – Education

**Globalization boosts international schools.** Globalization drives demand for high quality education and communication skills with an international scope. According to International Schools Consultancy (ISC Research), a market intelligence firm specialized in K-12 international school data, in the last 20 years international schools fee income has grown ten times between 2000 and 2020 from \$5bn to \$54bn, and it is set to reach \$85bn in 2027.

**Flexible schooling trend is the next education model.** Flexible schooling delivers more scheduling options for learners and enhances personalization of degree programs. Besides, Covid pandemic has been a catalyst for hybrid learning and some new approaches are here to stay.

**Moving to more Industry-based teaching.** Specialist technical schooling is gaining momentum, especially for highly technical fields.

**Digital and visual infrastructure becoming predominant.** Digital transformation in the education system is set to accelerate over the medium term delivering a more accessible and engaging product thanks to innovations like virtual and augmented reality.

### Industry drivers – Consultancy

**Digital transformation needs strategy and planning support.** Major challenges that companies face while executing digital transformation include the lack of budget allocation and planning. To undertake a digital transformation, a company needs to make a huge investment in acquiring state-of-the-art technology and the appropriate team. Companies need to have a strategy in place for the long-term and have a sound capital plan. The global digitization service market, according to BCG analysis on Grandview data for Company management plan, will rise at a CAGR 19-24E of 19.4%, reaching €216bn in 2024.

**Spending on digital media keeps rising.** Digital marketing and e-commerce business fuel total spending on digital media, which is outpacing other channels. The trend is expected to continue with a worldwide spending CAGR 2019-24 of 11% reaching \$790bn in 2024 according to BCG analysis on emarketer.com

**Digitization by migration of traditional IT infrastructure.** The cloud and computing solutions fuel the digital transformation consulting market globally. Digital transformation holds the potential to streamline and integrate all business operations, increasing business performance efficiency.

**Increasing amount of data volume.** Businesses are looking to centralize data management and delivery, as well as to leverage data to control their businesses and the user experience, which eventually may lead to higher uptake for digital consulting services.

**Accelerating AI Data Analytics.** The new data economy relies on AI's ability to analyze data and data science is a rapidly growing field that expands the need for culturally skilled professionals.

**COVID-19 global outbreak.** In the near term the global pandemic has pushed further digital transformation, given the increasing trend on mobile devices usage, stay-at-home and remote working.

### Company drivers

**Being in the forefront line of innovative education.** H-Farm provides education which encompasses all diplomas and courses from K12 school (4-18 years) to bachelor and master courses. The schools have an international and digital footprint, leveraging on Digital Technology for education purposes, a distinctive students' experience making its teaching model unique. The International standing is backed by undergraduate and graduate programs organized in partnership with universities such as Chichester University (UK), Luxembourg School of Business and Zagreb School of Economics.

**Cutting-edge education facilities.** Having a digital approach to education, H-Farm facilities provide the latest technology to support education efficiently. For instance, K12 can count on innovative solutions for a digital learning environment such as the proprietary virtual reality platform designed to fit K12 IB school needs. Also, the university is set to plan its distance learning unit as soon as the campus is saturated.

**Solid consultancy track record.** H-Farm Consultancy unit has over 10 years of track record and is well-positioned within the industry, providing business innovation and digital marketing consultancy to large size international companies. In the past years, the Consultancy business has been the major source of revenue, growing at a CAGR 2015-19 of 19%.

**Ability to generate synergies across business units.** The teaching method is intended to provide professionals with cultural and technical equipment conceived to understand and respond to digitization and transformation needs.

### Challenges

**Education realizable growth is on hold.** Covid-19 is challenging the industry, which is not experiencing growth but will likely be back to normal in the near future.

**Established private schools might turn to more innovative teaching, following H-Farm approach.** Private schools with an established track record in attractive cities might invest to offer a comparable to H-Farm education model and intensify competition.

**Increasing competition push on prices for consultancy services.** The budget reductions may also cause competitors to lower fees in order to maintain their market share.

**Market uncertainty on VC investments.** Post-pandemic economic conditions are not a clear path forward given the size and the high risk associated with the portfolio holdings.

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Date	Recommendation	Target Price (€)	Share Price (€)
03/05/2021	OUTPERFORM	0.31	0.23
07/06/2021	OUTPERFORM	0.34	0.31

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