

Milan, March 28, 2017



LETTER FROM THE PRESIDENT

Dearest Shareholders and Partners,

I'd like to share with you my great satisfaction with the results achieved in 2016, a particularly intense year, rich in events that were significant for our Company — a unique model of digital startups incubation in Italy, which works closely with startups across Italy and also with companies that want "to create innovation".

The economic and operating results achieved in 2016 derive from the commitment, the strategic planning and the efficient management of projects and investment operations: the **production value**, equal to **EUR 2.9 million**, **grew by 13%** compared to 2015, with an **EBITDA** which went up from 190 thousand to **333 thousand EUR (+ 75%** compared to 2015).

In the ongoing selection process of the startups we proceeded to incubate **15 new initiatives** and at the same time to make write-downs of investments for EUR 2.9 million in order to maintain the high **quality of our portfolio**, which **now** includes more than **70 investee companies**.

We are particularly pleased that the results of the operations and strategies developed – initiated during the last year and in continuous development in 2017 – are also reflecting positively on our share price, which increased by 52%, with significant daily trading volumes, from the beginning of the year.

I therefore want to thank all the shareholders and investors, who have believed and continue to believe in our ambitious project, by supporting our view and in favour of which we have decided to propose a **plan for the issuance of warrants free of charge**, in line with what was anticipated and promised to the market; we envisage the issue of a maximum 1,643,278 warrants, one for every 4 shares of Digital Magics in portfolio; each warrant, if exercised, will entitle to subscribe for one new ordinary share of the Company. Their exercise is scheduled for 6 times over the next 5 years, with an exercise price set at increasing values over time.

In recent weeks we have also **successfully completed the capital increase** with the entire subscription of the 1,232,459 new ordinary shares offered, for **over EUR 4.9 million** and a total

countervalue, including the exercise of the option and pre-emption rights amounting to **over EUR 5.7 million**. Among our major shareholders **Tamburi Investment Partners (TIP)** has fully subscribed its share of the capital increase and exercised its pre-emption rights on unsold shares, for a total investment of EUR 1.2 million, whereas **Garage Start Up, controlled by Multiversity, the holding company of Danilo Iervolino**, has become a relevant shareholder in Digital Magics, with a total investment of EUR 1.9 million.

In 2016, we paid the greatest attention in proceeding with the **exit** operations from some of our investees, obtaining more than positive results and detecting an increasingly high level of attention by investors towards our startups.

Indeed, in the first half of last year Digital Magics has sold its **equity investment in the scaleup Mimesi**, an Italian service for media monitoring and press reviews, with a **transfer price** of about **three times the initial investment** which took place in 2014.

In January 2017 the exit from **ProfumeriaWeb** – the e-commerce store for the sale of perfumes and cosmetics – was carried out. Since the initial investment in 2015, ProfumeriaWeb's revenues have quadrupled, confirming the company as the leading digital "pure player" operating in the sector in Italy. The **share of Digital Magics (5%)** was **sold** to the holding company Free Bird **with a three-digit multiple compared to the investment** and a **pre-money valuation of more than 6 million EUR**.

Two specific examples of our investees, which are growing internationally, gaining the attention of foreign investors, are represented by Talent Garden and Buzzoole.

Talent Garden is the European largest coworking platform for talents in the digital field, with **18 campuses in 6 European countries**. The startup has an **investment plan of EUR 12 million**, financed by a capital increase and bank loan, thanks to which it aims to increase its international presence in the next two years. Among the major foreign and domestic lenders of Talent Garden are included: 500 Startups, Endeavor Catalyst, Tamburi Investment Partners.

Buzzoole is the Influencer Marketing platform that connects brands with over 200,000 influencers from the Web. In January 2017, it has closed a **round of 830,000 Dollars** through convertible note, with leading international investors such as Impulse VC and R301 Capital, aimed at the expansion in the UK, Russia, France, Spain and India. Buzzoole today has a team of over 50 people in **offices in London, Milan, Rome and Naples** and has closed 2016 with a **turnover** of about **2.7 million EUR**.

For Digital Magics, 2016 was also characterised by **major industrial and financial partnerships**, demonstrating the strong determination to create a system with select key players in the development of the digital sector, which is of strategic value for the country.

I would especially point out the agreement with **Innogest**, among the most important Italian venture capital funds, and some shareholders of **Withfounders**, the seed accelerator founded by

Giulio Valiante along with five Italian business angels and serial entrepreneurs, who entered Digital Magics' capital. This agreement envisaged the subscription of a reserved capital increase, partly in cash and partly by contribution of 35% of Withfounders to the portfolio of Digital Magics, which enabled Digital Magics to become the accelerator reference shareholder with 13 startups in portfolio.

Another important partnership was signed with Multiversity, the holding company of Danilo Iervolino that controls **Universitas Mercatorum** and **Pegaso Telematic University**, for the launch of the most important Italian hub of telematic training aimed at creating innovative companies.

In the second half of 2017 **Digital Magics Startup University** will be born. It will propose an offering of academic courses for aspiring startuppers, with the objectives of creating a new generation of entrepreneurs and to select the best talents during their training.

2016 was also the year of the **expansion of our geographical presence with 4 new branches** (Palermo, Rome, Padua and Bari) in addition to those in Naples and Milan, with whom we have replicated and activated the unique model of our incubator in several Italian regions.

We have consolidated the **Open Innovation** Program, which is based on projects tailored to disseminate innovation in companies through agreements with startups and scaleups. Open innovation is also a shared model with our two partners: Tamburi Investment Partners, the first Italian independent merchant bank and Talent Garden, the leading European network of coworking with TAG Innovation School. **10 programs were implemented in 2016** together with leading companies including Adecco Group, Cisco, Intesa Sanpaolo Group, Bricoman Italy, Fastweb, Poste Italiane, Nice; **in 2017 we expect to realize a further 15.**

We started the **GIOIN, Gasperini Italian Open Innovation Network**, a point of reference for companies that want to learn how to make innovation through tools and concrete examples, which **in 2016** was a great success involving, during 6 meetings, **over 1,000 entrepreneurs**, CEOs, top managers, all engaged in different Italian territories.

GIOIN highlights case studies of collaborations between startups and companies with a pragmatic and operational approach. **The series of events for 2017 has already started** and this year it includes two additional meetings compared to the first edition, with **8 events** in major Italian cities (Padua, Naples, Milan, Saint Vincent, Rovereto, Turin and Rome).

As concerns 2017 we are particularly optimistic. The interest in the world of startups is growing rapidly with investments which increased by over 65% nationally and which will grow even further thanks to the **government's incentive plan "Industry 4.0"**, an opportunity of great importance for Made in Italy companies.

Thanks to "Industry 4.0" estimated investments for over EUR 13 billion are expected in the next three years from 2017 to 2020 in favour of startups and innovative SMEs. It is also expected: the mobilisation of EUR 2.6 billion for private early stage investments, a Fund dedicated to "Industry 4.0" startups, tax deductions up to 30% for investments of up to EUR 1 million in startups and innovative SMEs, the absorption of any losses incurred from startups in the first 4 years by sponsor companies (publicly traded), tax benefits with de-taxation of capital gain on medium/long-term investments (Individual Savings Plans, PIR).

As Digital Magics we will continue to pursue our strategic path and to always be close to the Italian talents and to the digital startup entrepreneurs, by supporting them directly into their territories by opening additional branches in 2017.

I also want to take this opportunity to thank you all, shareholders and the whole team of Digital Magics, who are our great strength and provide an unparalleled competitive advantage, represented by the 360° expertise put at the service of innovation and development of digital startups and companies and especially by the passion with which every day the team is committed to creating value and achieving goals.

I hope to see you all in the future,

Alberto Fioravanti
Founder and Executive Chairman of Digital Magics