

DIGITAL MAGICS APPROVES THE DRAFT 2016 FINANCIAL STATEMENTS AND THE ALLOCATION OF FREE WARRANTS FOR THE BENEFIT OF SHAREHOLDERS

- **Value of production: EUR 2.9 million** (EUR 2.6 million at 31/12/2015); **EBITDA equal to EUR 333 thousand** (EUR 190 thousand in 2015) in growth; **net loss of EUR 3.2 million** (loss of EUR 1.2 million at 31/12/2015) **due to write-off** (write-down of equity investments) amounted to EUR 2.9 million; negative net financial position of EUR 3.9 million (negative for EUR 1 million at 31/12/2015) with medium/long-term net debt equal to 3.5 million.
- **Issuance of a maximum number of 1,643,278 free warrants to be assigned to Shareholders** (no. 1 warrant for every no. 4 Digital Magics shares held); each warrant, in case of exercise, confers the right to subscribe no. 1 new ordinary share of Digital Magics
- Entry into 15 new startups; portfolio companies have collected investments for a total of **EUR 13.4 million** (EUR 9.8 million in 2015), thus reaching investments exceeding 43 million over the last five years
- **4 new branches in Italy** (Palermo, Rome, Padua and Bari), in addition to offices in Naples and Milan
- **10 new Open Innovation programs** that generated profits
- **Launch of GIOIN Gasperini Italian Open Innovation Network**, the largest network dedicated to open innovation

Milan, March 28 2017 - The Board of Directors of Digital Magics SpA, *business incubator* listed on AIM Italia market (symbol: DM), organised and managed by the Italian Stock Exchange, LSE Group, approved today the draft of the Financial Statements for the year ended December 31 2016 and resolved to call the Ordinary Shareholders' Meeting, scheduled for April 27 - May 2 2017.

*"It has been an intense year, filled with satisfaction and successfully completed projects" – commented **Alberto Fioravanti, Founder and Executive Chairman of Digital Magics.** "In addition to the growth of the portfolio, with 15 new startups that have joined our team in 2016, there were 11 in 2015, we launched GIOIN, the exclusive network dedicated to innovation, a series of reference events as concerns industry trends and we also achieved leadership in offering Open Innovation. As required by our business plan, we replicated and activated the unique model offered by our incubator in some of the major Italian cities and territories, and we will continue to do so in 2017, with the aim to be close to the new entrepreneurs. The partnerships with Innogest/Withfounders and, Universitas Mercatorum and Pegaso Telematic University of Danilo Iervolino demonstrate our determination to foster the development and growth of Digital Magics through agreements with selected players, with a leading role in the development of the digital sector, which is strategically important for the country".*

"Digital Magics is the major player as regards Italian Open Innovation, which comes to life through commitment, capacity and strategic vision in the medium-long term" – said Alessandro Malacart,

Managing Director of Digital Magics for Corporate & Finance. *"In the interest of our shareholders, we have decided to launch a plan for the issuance of warrants free of charge, in line with what has been anticipated and promised. The first important results are materialising and the market, which has shown to have understood the potential of our business model, has rewarded us, including on occasion of the recent capital increase concluded with great success."*

MAIN RESULTS AS OF DECEMBER 31, 2016

Production value amounted to EUR 2.9 million (EUR 2.6 at 12/31/2015), up by 13%. In particular, revenues from incubation services amounted to EUR 2.1 million (EUR 2.5 million at 12/31/2015), following the transfer of coworking activities and basic logistics services in favour of our investee Talent Garden.

EBITDA increased from EUR 190 thousand to EUR 333 thousand (+ 75% compared to 2015). EBIT was a negative balance of EUR 249 thousand (negative for EUR 231 thousand in 2015), mainly due to the effect of amortisation and depreciation on investments made for new lines of business.

The net result was a loss of EUR 3.2 million (loss of EUR 1.2 million at 31/12/2015) after write-downs of investments in startups for EUR 2.9 million (EUR 965 thousand at 12/31/2015). In line with the industrial plan and in order to maintain the high quality of the startups portfolio, the Company carried out 10 write-offs (full write-down of equity investments) that have significantly affected the results of 2016. The operation is related to those projects for which it was considered that there were no further possibilities for concrete development. Indeed, the incubator business model provides that, within the growing portfolio, only the best startups can continue to be supported.

Net financial debt amounted to EUR 3.9 million (EUR 1 million at 12/31/2015), of which EUR 3.5 million in the medium-long term; in 2016 the Company has retrieved long-term resources (EUR 2 million) to finance the investment plan on the startups.

The year 2016 was marked by events and actions in line with the business strategy:

- Strategic agreement for the entry of Innogest (among the most important Italian venture capital funds specialising in early stage investments) and some shareholders of Withfounders (seed accelerator founded by Giulio Valiante along with five Italian business angels and serial entrepreneurs) into the capital of Digital Magics. The agreement envisaged the subscription of a reserved capital increase, partly in cash and partly by conferment of 35% of Withfounders into portfolio of Digital Magics. Digital Magics has thus become the reference shareholder of the accelerator who held 13 startups in its portfolio.
- Launch of Digital Magics Startup University, the most important Italian hub dedicated to telematic training to create an innovative company, in collaboration with Universitas Mercatorum and Pegaso Telematic University, dedicated to future entrepreneurs with academic courses for aspiring startupper. Activities will begin in the second half of 2017.
- The startup Talent Garden (invested in by Digital Magics and strategic partner in the DIGITAL MADE IN ITALY platform with Tamburi Investment Partners) has an investment plan of EUR 12 million in the next two years aimed at the expansion in Europe of the most

important network of coworking for digital professionals, financed by a capital increase, involving Italian and international investors (including 500 Startups, Endeavor Catalyst, Tamburi Investment Partners) and by bank debt.

- Opening of 4 new branches (Palermo, Rome, Padua and Bari) which, along with the branch in Naples, made it possible to invest in 8 new startups, as well as the 7 new ones of the Milan office.
- Launch of GIOIN (Gasperini Italian Open Innovation Network), which saw the participation – in 6 events organised in Milan, Rome, Saint Vincent, Naples and Palermo – of more than 1,000 people, including CEOs, entrepreneurs and top managers looking for a solution to bring innovation to their companies.
- Launch of over 10 Open Innovation programs with Italian companies that, thanks to Digital Magics have started to create synergies and trade agreements with startups, with great satisfaction and excellent results on both sides, for the innovation of companies and the business growth of startups.
- Launch of Digital Magics Healthtech: incubation program in collaboration with Healthware International, created to assist digital startups in the health sector and to develop Open Innovation programs for Italian companies and public health.
- In the first half of 2016, Digital Magics has sold its stake in Mimesis (Italian service dedicated to media monitoring and press reviews), at the end of the incubation program and as part of an agreement with the majority shareholders. The sale price was about three times the initial investment of 2014.

PORTFOLIO STARTUPS AND INVESTMENTS AS AT December 31 2016

At December 31, 2016 in the **portfolio of Digital Magics** stood at **60 investee companies** (49 in 2015), at net of the investments that were subject of write-offs, primarily pertaining to digital media, digital marketing, internet of things, Fintech, Healthtech, e-commerce , Made in Italy (Food, Fashion, Design) and B2B services for companies.

Investments in the shareholdings amounted to EUR 3.1 million (EUR 2.6 million at 12/31/2015), in addition to EUR 10.3 million (EUR 7.2 million at 12/31/2015) invested in shareholdings partially owned by third parties **for a total of EUR 13.4 million in 2016.**

Total investments collected by the companies in the portfolio over the past 5 years amounts to over EUR 43 million.

OPEN INNOVATION AND 'INDUSTRIA 4.0' PLAN

Open Innovation has been confirmed as the winning strategy to support Italian businesses in the "innovation" process through a solid and concrete methodology, which allows companies to introduce innovative solutions and undertake the process of internal digital transformation, signing important trade agreements with the startups selected and involved. **In 2016 more than 10 programs of Open Innovation were completed with great success**, with leading client companies, including Adecco Group, Cisco, Intesa Sanpaolo Group, Bricoman Italy, Fastweb, Poste Italiane and Nice. **During 2017 a further 15 programs will be added.** Open Innovation will benefit from a strong acceleration thanks to the 'Industria 4.0' Plan offered by the Italian

Government, which lays out a substantial set of measures designed to facilitate the improvement of the country's competitiveness. With a view to consolidate its leadership in Open Innovation, Digital Magics has also signed a partnership agreement with EY that allows to make an additional strategic contribution in favour of companies.

WARRANT PLAN

The Board of Directors has today approved the draft Regulations for the issue of Free Warrants to be assigned to Digital Magics Shareholders and has given a mandate to the Chairman to convene a Shareholders' Extraordinary Meeting, simultaneously to the Ordinary Shareholders' Meeting (scheduled for April 27 – May 2 2017) to authorise the **issuance of warrants and the capital increase for the the conversion shares. It is expected the maximum emission of no. 1,643,278 warrants, one for every four shares Digital Magics held. Each warrant, if exercised, will entitle to subscribe one new ordinary share of Digital Magics.**

The exercise of warrants is scheduled in six periods over five years, in October of each year from 2017 to 2022; in particular cases, it is possible to exercise even outside of the above time windows.

The exercise price of the warrants is fixed at increasing values over time, as follows:

- € 5.75 in October 2017
- € 6.35 in October 2018
- € 6.95 in October 2019
- € 7.55 in October 2020
- € 8.15 in October 2021
- € 8.75 in October 2022

The warrants will be allocated to Shareholders free of charge, automatically and without need for further requests, will be dematerialised and freely transferable and the admission to trading on the Italian Stock Exchange will be requested.

The corresponding capital increase will amount to maximum EUR 14,400,000, inclusive of share premium.

SIGNIFICANT 2017 EVENTS OCCURRED AFTER DECEMBER 31 2016

- The rights offering was successfully concluded with all of the no. 1,232,459 new ordinary shares being subscribed for a total value of EUR 4,972,972.07. No. 81,473 new shares have been assigned under the proportional allotment mechanism to those who have exercised their preemptive right; these shares add to the no. 1,150,986 shares, newly issued, on the occasion of the exercising of the option rights. The total value of the request, adding the exercise of stock options and the requests for pre-emption amounted to EUR 5,787,093.84. **Tamburi Investment Partners** (TIP) has fully subscribed its share of the capital increase and exercised its preemptive right on unsold shares, for a total investment of EUR 1.2 million. **Garage Start Up**, controlled by Multiversity SpA, holding of Danilo Iervolino, has become a relevant shareholder in Digital Magics, with a total investment of EUR 1.9 million.
- The share capital increase with exclusion of pre-emptive rights was finalised, and it totalled

EUR 410,815.00 by issuing no. 410,815 new ordinary shares, for a total amount, including share premium, of EUR 1,657,640. The capital increase was reserved to some shareholders of Withfounders, primarily Innogest, and it was fully subscribed partly in cash (approximately EUR 600 thousand) and partly by conferments in kind (35% of the share capital of Withfounders itself). Innogest has thus become a significant shareholder of Digital Magics.

- Exit from ProfumeriaWeb, the Italian leading e-commerce store for the sale of perfumes, cosmetics and beauty products; Digital Magics sold its stake to Free Bird, an investment holding company in innovative companies. Since the initial investment, ProfumeriaWeb revenues have quadrupled, confirming the company as the first "pure player" digital operator of the sector in Italy. The share of Digital Magics (5%) is sold with a three-digit multiple compared to the investment, with a pre-money valuation of ProfumeriaWeb of over 6 million.
- GIOIN appointments return: the first event was held in Padua on the theme 'Industry 4.0'. The 2017 edition of GIOIN includes two additional events compared to 2016: 8 events will be held in major Italian cities (Padua, Naples, Milan, Saint Vincent, Rovereto, Turin and Rome).
- Activity also continues to carry out the sale of equity investments (exits) in those startups that have successfully completed the incubation cycle. After the exit from Mimesis and ProfumeriaWeb, further negotiations are ongoing and could be finalised in 2017.
- Agreement signed for the call 'Contamination Lab' in collaboration with the University of Naples Federico II and the University of Bari Aldo Moro.

SHARE CAPITAL AND RELEVANT SHAREHOLDERS

Following the execution of the two capital increases above shown, the new share capital of Digital Magics SpA amounts to EUR 6,573,113, divided into no. 6,573,113 ordinary shares of no nominal value.

In accordance with what was communicated to the Company by the Relevant Shareholders, the current shareholding structure of Digital Magics SpA – also including the completion of the hereditary succession process of a part of shares of Digital Magics SpA, previously held by Enrico Gasperini, to the Gasperini family: his wife Patrizia Cavallini and his three sons – is as follows:

Shareholder	No. of Actions	% of the Share Capital
Tamburi Investment Partners SpA	1,193,045	18.15 %
Alberto Fioravanti	826,279	12.57 %
Garage Start Up Srl	470,880	7.16 %
Patrizia Cavallini	341,033	5.19 %
Innogest SGR SpA.	338,038	5.14 %
Marco Gay	274,062	4.17 %
Manuel Gasperini	227,351	3.46 %
Alessio Gasperini	227,351	3.46 %
Leonardo Gasperini	227,351	3.46 %
Gabriele Ronchini	100,594	1.53 %
Market	2,347,129	35.71 %
TOTAL	6,573,113	100 %

The participation of Marco Gay, Executive Deputy Chairman of Digital Magics, is held partly directly and partly indirectly, through its holding company Webworking Srl.

BUSINESS OUTLOOK

During the year we will continue the **selection of innovative startups** with the aim to incubate new initiatives, while accelerating the **exit** program and **enhancement of the existing the portfolio**. The strategic nature of the **territorial expansion** program retains the objective of covering additional areas at the national level, also in view of the wide distribution on the territory of the startups, a special characteristic of the **Italian system**. Top management also aims to consolidate the **Open Innovation** program in order to **support the process of innovation** and digital transformation of **domestic enterprises**, so that Digital Magics itself can be a real "bridge" for the **generating value** through the proposed new opportunities that encourage integration of effective and efficient business models and "innovative" solutions, by guiding the change. The launch of **Digital Magics Startup University** - dedicated to the training of new digital entrepreneurs - is scheduled for the second half of 2017.

CONVENING OF SHAREHOLDERS 'MEETING

The Board of Directors has resolved to call an Ordinary and Extraordinary Meeting of Shareholders of Digital Magics on April 27, 2017 and, in second call, on May 2, 2017.

The Ordinary Meeting is convened to approve the Annual Report 2016, for confirmation and appointment of directors, prior increase in the number of councilors, for the renewal of the Statutory Auditors and to authorise the purchase and sale of own shares.

The lists for the appointment of statutory auditors will be filed at the Company's registered office and on the Company's website.

Following the data of the Income Statement, Balance Sheet and Cash Flow Statement at 31 December 2016.

This press release is online at www.digitalmagics.com in the section *Investors/Press Releases*.

***Digital Magics**, listed on AIM Italia (symbol: DM), is an incubator of digital projects that provides consulting services and acceleration services to startups and enterprises, to facilitate the development of new technological businesses. Thanks to the partnership with Talent Garden and Tamburi Investment Partners, Digital Magics has created the most important national platform for innovation for DIGITAL MADE IN ITALY, by offering services for the digital transformation and "Open Innovation" to excellent enterprises, while providing support to innovative startups to create successful projects, from conception to IPO. The incubation and acceleration services offered by Digital Magics are active in the TAG co-working campuses present throughout Italy. Complementary services include investment activities, which have produced over the years a portfolio of 70 investments in startups, scaleups and digital spinoffs with high growth rates. Accelerated companies are flanked by Digital Magics LAB, a team of highly experienced business partners, and benefit not only from the large network of private and institutional investors that support them through "club deals", but also from the many partner companies that support them on an industrial scale.*

***Integrae SIM** acts as a Nomad and Specialist under the AIM Italia Issuers Regulations. For communication transmissions, Digital Magics makes use of the SDIR-NIS circuit, operated by BIt Market Services, a subsidiary of the London Stock Exchange Group.*

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RECLASSIFIED INCOME STATEMENT

(in Euro)

	Year 2016	Year 2015	Variation
Revenues from sales and services	2.082.631	2.458.043	(375.412)
Other Revenues and increases in fixed assets	830.197	56.023	774.174
Changes in inventories	-	59.100	(59.100)
Value of production	2.912.828	2.573.166	339.662
Cost of raw, ancillary and consumable, materials and goods	(28.701)	(25.426)	(3.275)
Cost of external services, use of third parties assets and other costs	(2.204.668)	(2.118.307)	(86.361)
Added value	679.459	429.433	250.026
Payroll cost	(346.242)	(252.547)	(93.695)
Gross Operating Margin (EBITDA)	333.217	176.886	156.331
Depreciation	(437.897)	(421.052)	(16.845)
Other valuation adjustments	(143.866)	-	(143.866)
Operating Result (EBIT)	(248.546)	(244.166)	(4.380)
Net financial income (charges)	(26.956)	(118.243)	91.287
Value adjustments to financial assets	(2.951.679)	(965.126)	(1.986.553)
Income before extraordinary items and taxes	(3.227.181)	(1.327.535)	(1.899.646)
Income taxes for the year	36.521	98.139	(61.618)
Result for the year	(3.190.660)	(1.229.396)	(1.961.264)

RECLASSIFIED BALANCE SHEET

(in Euro)

	12/31/2016	12/31/2015	Variation
Intangible assets	1.149.092	416.971	732.121
Tangible fixed assets	33.239	51.857	(18.618)
Financial fixed assets	15.697.431	15.485.888	211.543
Non-current assets	16.879.762	15.954.716	925.046
Short-term assets	3.668.207	3.424.188	244.019
Activities during the year	20.547.969	19.378.904	1.169.065
Short term liabilities	1.637.126	1.656.816	(19.690)
Net working capital	2.031.081	1.767.372	263.709
Severance indemnity	68.517	40.604	27.913
NET CAPITAL INVESTED	18.842.326	17.681.484	1.160.842
Shareholders' Equity	14.898.247	16.638.906	(1.740.659)
Cash and cash equivalents	(733.178)	(2.628.074)	1.894.896
Short-term bank payables	1.171.629	1.158.380	13.249
Debtenture loan		313.500	(313.500)
Net short-term financial debt	438.451	(1.156.194)	1.594.645
Long-term bank payables	3.505.628	2.198.772	1.306.856
(Position)/Net medium-long term financial debt	3.505.628	2.198.772	1.306.856
Total net financial position	3.944.079	1.042.578	2.901.501
NET EQUITY AND NET FINANCIAL DEBT	18.842.326	17.681.484	1.160.842

CASH FLOW STATEMENT

(in Euro)

	Esercizio 2016	Esercizio 2015
A. Cash flow generated by operating activities		
Net income (loss) for the period	(3.190.660)	(1.229.396)
Income taxes	(32.413)	-
Allocation deferred taxes (prepaid)	(4.108)	3.844
Interest income (Interest expenses)	141.376	105.964

Net loss (gains) on disposal of intangible fixed assets	-	12.279
Capital gains from the disposal of investments	(94.426)	(101.983)
1. Accounting profit (loss) for the year before taxes, dividends and capital gains/losses from disposals	(3.180.231)	(1.209.292)
<i>Value adjustments for non-monetary assets which do not have an effect on CCN</i>		
Accruals provisions for risks and charges	-	-
Amortisation of intangible fixed assets	424.307	397.035
Amortisation of tangible fixed assets	13.590	24.017
Write-downs for impairment losses	2.951.679	965.126
Provisions TFR (severance indemnity)	20.713	14.914
Write-downs of intangible assets	1.798	-
Write-downs of trade receivables	142.068	-
2. Cash flow before variations in the CCA	373.924	191.800
<i>Change in the net working capital</i>		
Decrease (increase) in inventories	-	(59.100)
Decrease (increase) receivables from clients	(886.898)	(110.546)
Decrease (increase) receivables from subsidiaries	(319.406)	464.977
Decrease (increase) receivables from associates	424.656	(98.878)
Decrease (increase) prepaid taxes	-	54.215
Decrease (increase) tax receivables	9.974	15.489
Decrease (increase) other net assets	515.691	(211.757)
Decrease (increase) of payments and accrued income	(47.926)	(111.227)
Increase (decrease) trade payables for assets	369.233	50.681
Increase (decrease) payables to subsidiaries	(273.318)	253.021
Increase (decrease) payables to associates	(18.300)	(14.691)
Increase (decrease) in tax payables	(104.719)	54.378
Increase (decrease) payables to parent companies	-	-
Increase (decrease) other net liabilities	(33.673)	(712.195)
Increase (decrease) financial accrued expenses and deferred income	41.087	(59.909)
3. Cash flow after variations in the CCA	50.325	(293.742)
<i>Other adjustments</i>		
Interests collected (paid)	(141.376)	(105.964)
TFR (severance indemnity) paid	7.200	(14.866)
Use of funds	-	(36.464)
4. Cash flow after other adjustments	(83.851)	(451.036)
Financial flow of operating profitability (A)	(83.851)	(451.036)
B. Cash flows arising from investing activities		
<i>Tangible fixed assets</i>		
(Investments)	5.028	(38.088)
<i>Intangible fixed assets</i>	-	-
(Investments)	(1.158.226)	(401.937)
<i>Financial fixed assets</i>	-	-
(Investments)	(2.851.829)	(3.128.350)
Investments disposal price	687.376	
Cash flow from investments (B)	(3.317.651)	(3.568.375)
C. Cash flows arising from investing activities		
<i>Means of third parties</i>		

Increase (decrease) short term bank debts	13.249	507.675
Increase (decrease) long term bank debts	1.306.856	(854.466)
Debenture loan	(313.500)	
<i>Equity</i>		
Paid capital increase	500.001	4.990.507
Cash flows arising from investing activities (C)	1.506.606	4.643.716
Increase(decrease) in cash and cash equivalents (A+B+C)	(1.894.896	624.305
	)	
Cash and cash equivalents on January 1st	2.628.074	2.003.769
Cash and cash equivalents on December 31st	733.178	2.628.074
