

Deodato.Gallery	Italy	Euronext Growth Milan	Contemporary Art
Rating: BUY	Target Price: € 1,70	Initiation Of Coverage	Risk: Medium

Stock performance	1M	3M	6M	1Y
absolute	N/A	N/A	N/A	N/A
to FTSE Italia Growth	N/A	N/A	N/A	N/A
to Euronext STAR Milan	N/A	N/A	N/A	N/A
to FTSE All-Share	N/A	N/A	N/A	N/A
to EUROSTOXX	N/A	N/A	N/A	N/A
to MSCI World Index	N/A	N/A	N/A	N/A

Stock Data	
Price	€ 1,29
Target price	€ 1,70
Upside/(Downside) potential	32,5%
Bloomberg Code	ART IM EQUITY
Market Cap (€m)	€ 40,26
EV (€m)	€ 40,53
Free Float	13,72%
Share Outstanding	31.329.000
52-week high	N/A
52-week low	N/A
IPO Price (25/01/23)	€ 0,50

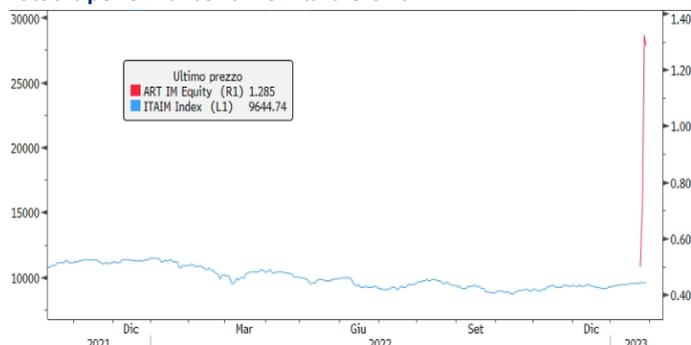
Key Financials (€ m)	FY21A	FY22E	FY23E	FY24E
Revenues	5,9	9,8	13,9	18,9
VoP	7,1	11,0	15,2	20,9
EBITDA	1,5	2,4	3,5	5,2
EBIT	1,3	2,3	3,2	5,0
Net Profit	0,9	1,7	2,4	3,7
EBITDA margin	20,4%	21,9%	22,8%	24,9%
EBIT margin	18,8%	21,0%	21,1%	23,7%
Net Profit margin	13,1%	15,5%	15,8%	17,7%

Main Ratios	FY21A	FY22E	FY23E	FY24E
EV/EBITDA (x)	27,8	16,9	11,7	7,8
EV/EBIT (x)	30,2	17,6	12,7	8,2
P/E (x)	43,2	23,7	16,8	10,9

Mattia Petracca mattia.petracca@integraesim.it

Alessandro Colombo alessandro.colombo@integraesim.it

Stocks performance vs FTSE Italia Growth



Company Overview

Deodato.Gallery SpA is a company operating in the field of contemporary art with a strong propensity for technological development. Founded in 2015 by Deodato Salafia, the Deodato Arte brand is recognized as the first in Italy and of international importance in the Pop and Street Art sectors thanks to the importance of the artists proposed, the quality and quantity of the works in the collection, as well as for the attention to the relationship with collectors. Within the world of contemporary art, Deodato Arte is positioned as a reference Italian player in the purchase and sale of works of art. Deodato.Gallery SpA is at the top of a nationally and internationally active group.

Market

Deodato Arte, through its activity, operates within the art industry, with a focus on street art and pop art. In 2021, the global art market recorded a strong recovery, reaching an estimated \$ 65.10 billion, equal to 29.0% compared to the value of 2020 and exceeding the market value by \$ 0.70 billion in 2019. Online sales accounted for about a fifth of the total market value in 2021, reaching \$ 12.40 billion, twice the value of 2019. The growth of the online sector continued also in 2021, increasing by 7.0% and reaching a share of \$ 13.30 billion.

Valuation Update

Given the lack of comparable companies with Deodato Arte, we conducted the valuation of the Company's equity value based solely on the DCF methodology. The equity value resulting from the application of the DCF method (which in the calculation of the WACC also includes a specific risk of 2.5% for prudential purposes) is € 53.3 million. Therefore, the target price is equal to € 1.70, rating BUY, risk MEDIUM.

Table of Contents

1.	Company Overview	3
1.1	The activity	3
1.2	Company Story	4
1.3	Shareholding and Group Structure.....	5
1.4	Corporate Governance	6
1.5	Key People.....	7
1.6	Innovative SME.....	8
2.	Business Model overview	9
2.1	Industry Business System	9
2.2	Business Model	10
2.3	Technology and development	12
2.4	Portfolio of products and services.....	15
2.5	Clients and Providers.....	17
2.5.1	Clients.....	17
2.5.2	Providers	19
3.	The market	20
3.1	Global online art market	20
3.2	Macro-Trend 2022.....	23
3.2.1	Government regulations	24
3.2.2	Trasparency.....	25
3.2.3	Smart city	26
3.2.4	Online Marketplace and NFT.....	26
4.	Competitive positioning	27
4.1	Swot Analysis.....	28
5.	Economics & Financials	29
5.1	FY21A Results	30
5.2	1H22A Results	31
5.3	FY22E-FY25E Estimates	32
5.4	Use of Proceeds.....	36
6.	Valuation	37
6.1	DCF Method	37
7.	Equity Value.....	39

1. Company Overview

1.1 The activity

Deodato.Gallery SpA ("Deodato Arte" or the "Company") is a company operating in the field of contemporary art with a strong propensity for technological development. Founded in 2015 by Deodato Salafia, the Deodato Arte brand is recognized as the first in Italy and of international importance in the Pop and Street Art sectors thanks to the importance of the artists proposed, the quality and quantity of the works in the collection, as well as for the attention to the relationship with collectors. Within the world of contemporary art, Deodato is positioned as a reference Italian player in the purchase and sale of works of art. The Group, in particular, focuses on the pop art and street art sector where it markets works by Banksy and counts among the artists with whom it has privileged relations Mr. Brainwash, Romero Britto, Obey, David LaChapelle, TV Boy, and Mr. Savethewall. In addition, the Group follows a series of emerging and middle-career artists and offers a range of services in the B2B segments, such as, for example, the rental of works to museums and the organization of events for brands.

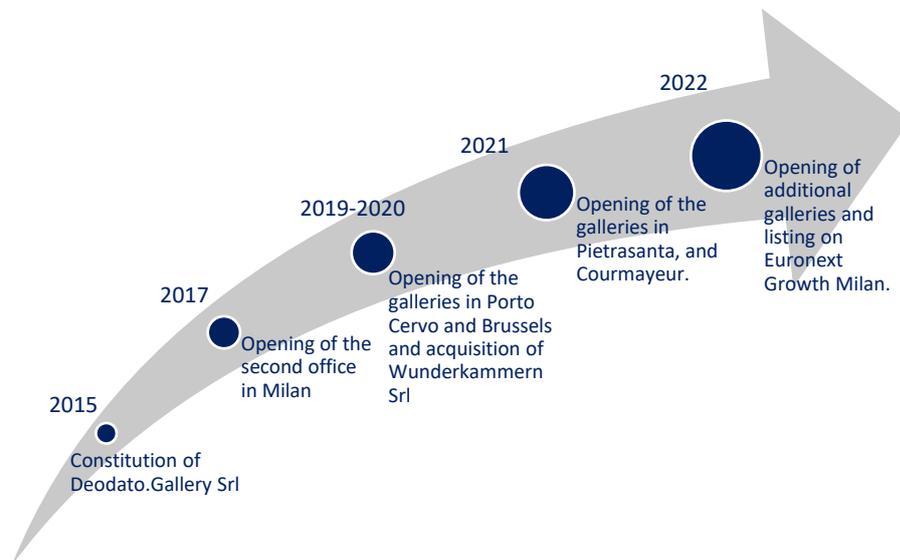
Deodato.Gallery SpA is at the top of a nationally and internationally active group (the "Group" or "Deodato Group"), consisting of the following subsidiaries directly owned by Deodato:

- Deodato.BE, art gallery based in Belgium, present since 2021;
- Deodato.CH, art gallery based in Switzerland, created in early 2022;
- Deodato.US, a commercial branch based in Miami (USA), founded in 2019 but started in 2022, due to the pandemic;
- Wunderkammern Gallery, an Italian art gallery specializing in street art, based in Rome, acquired at 80.0% through M&A operation in January 2020;
- Deodato.Tech, an innovative start-up that, in addition to dealing with internal processes and e-marketing and e-distribution activities, will develop the Metaverso, NFT and AR business lines in the near future.

In June 2022, the Company also launched a contemporary art brand called "Love Spot Galleries", with the main objective of opening a considerable number of galleries both directly and in franchise. The Group has an inbound sales structure with 13 offices in Italy and abroad. Inbound is strongly based on websites and thanks to its cutting-edge technology, Deodato Arte has managed to create a large loyalized community, with over 2,500 active customers, 260 transactions on average per month, 2,000 visitors per day on its sites, 93,000 followers on social profiles and 71,000 newsletter subscribers. The intense marketing activity, organic SEO positioning, and paid adv campaigns allow the Group to acquire more than 90 leads per day, obtaining more than 130 sales per month. Deodato Arte, in addition to the use of innovative marketing processes, has invested in advanced technology, developing and creating an innovative platform for Metaverso and NFTs.

1.2 Company Story

Chart 1 – Company Story



Source: Deodato.Gallery SpA

- In **2015** Deodato Salafia founded Deodato.Gallery Srl and opened its first office in Milan in Via Santa Marta. At the same time, Deodato develops its e-commerce and inbound marketing system, which will represent the core of the Group's growth in the years to come.
- In **2017**, Deodato Arte opened its second office in Via Nerino 2 in Milan. The year also saw the publication of the book: "Your first five works of contemporary art" by the founder Deodato Salafia who contributes to strengthening the brand awareness of the Group and the positioning of the brand.
- In **2019**, after the initial development phase, the Group embarked on a series of strategies that saw an increase in its presence at the national and international levels. The first step is the opening of the Gallery in Porto Cervo which, independently attracting a good base of customers, marks the way forward in subsequent periods.
- **2020**, in particular, marks the Group's international expansion. Deodato Arte, in fact, acquires an 80.0% stake in Wunderkammern Srl, a company active in the Roman market, and at the same time opens a headquarters in Brussels, strategic for entering the French-speaking market.
- In **2021**, the Group continued its expansion with the opening of two galleries, one in Pietrasanta (Italy) and the other in Courmayeur (Italy), and faces the world of the metaverse by developing the Deodato Island.
- In **2022** Deodato continued its expansion with the opening of galleries in Chia (Italy), in Sankt Moritz (Switzerland), with the opening of the third headquarters in Milan in Via Nerino 1, and in the United States through the establishment of Deodato.US. Furthermore, in 2022, the listing process on the Euronext Growth Milan market began.

1.3 Shareholding and Group Structure

Table 1 – Shareholders

Shareholders	% Shares
Qwerty SA	81,97%
Other Shareholders <5%	4,31%
Free Float	13,72%
Total	100,0%

Source: Deodato.Gallery SpA

The Group has developed into specific corporate vehicles for each type of activity. In particular, Wunderkammern Gallery, Deodato.BE, Deodato.CH, and Deodato.US are corporate vehicles used by the group to expand its activities internationally in Italy (Rome), Belgium, Switzerland, and the USA, respectively. It should be noted that, unlike the others, Wunderkammern Gallery was annexed to the Group in 2020 through an M&A operation, leaving the remaining 20.0% of the company in the hands of the previous owners to continue to take advantage of the experience and knowledge of the previous property. Deodato.Tech, on the other hand, is an innovative start-up that deals with internal processes and e-marketing and e-distribution activities (for example through the creation of content for the project in the metaverse Deodato Arte Island and augmented reality technologies).

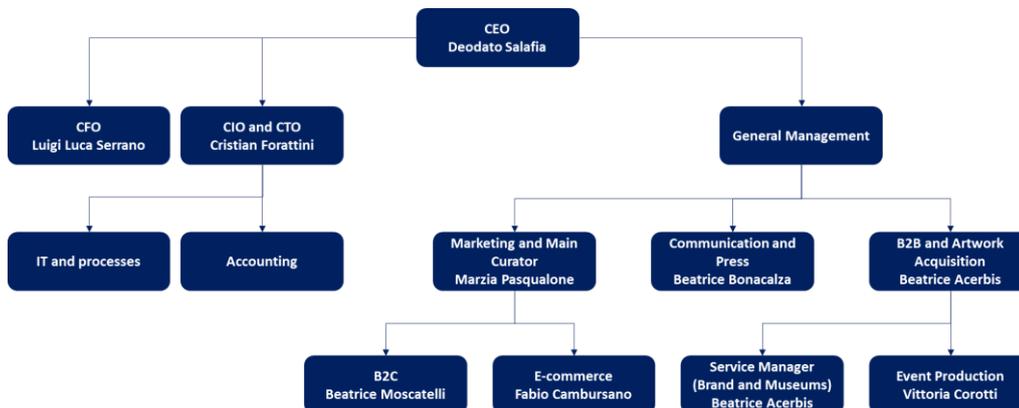
With reference to the Group's shareholding, it should be noted that 81.97% of the share capital of Deodato Arte is held by QWERTY SA, a Swiss holding company subsidiary of Deodato Salafia. 4.31% of the share capital is held by past and present customers of the Group, who have decided to enter the share capital, with individual holdings of less than 5.0% and subject to lock-up, while the remaining part is held by the market (13.72%).

In addition, Deodato has three related parties:

- iCostum, whose shareholders are D. Salafia and C. Forattini, is a company that has INAZ Paghe as its main customer and an average annual turnover of € 0.60 million;
- Lieu.city, created from the idea of D. Salafia, is a startup that deals with technology for the metaverse, from which Deodato.Gallery purchases technology, which it exploits for its strategic marketing, at very low costs;
- Academyque is a brand of Sirente Srl in which Deodato.Gallery has invested € 0.03 million to financially support the company, in which D. Salafia does not play any operational role.

1.4 Corporate Governance

Chart 2 – Corporate Governance



Source: Deodato.Gallery SpA

The Board of Directors will consist of five members and will serve for the three-year period 2022 - 2024 and expire with the approval of the financial statements for the year ending 31 December 2024. Specifically, the following structure is planned:

- Deodato Salafia is the president and CEO;
- Cristian Forattini, Luigi Serrano, and Massimo Riva serve as Directors;
- Matteo Radice holds the position of Independent Director.

The Board of Statutory Auditors, appointed for the three-year period 2022 - 2024, will be composed of three standing auditors and two alternate auditors, and will expire with the approval of the financial statements for the year ending 31 December 2024. Specifically:

- Adriano Cartabia, Luca Maddeo, and Gennaro Di Noia will serve as acting auditors;
- Luciano Mirabello and Giovanni Nigro are the two alternate auditors.

1.5 Key People

Deodato Salafia – Founder and Chairman of the Board of Directors

Graduated in Computer Science and Theology respectively from the University of Milan in 1996 and the Theological University of Lugano in 2016, he has also a specialization in online marketing. In 1998 he founded Dialogos3 S.r.l., an expert in middleware development, web development and legacy integration, which was sold in 2001 to the TC Sistema Group. Subsequently, from 2001 to 2004, he held the position of e-Business Manager at the TC Sistema Group. 2010 saw the opening of the first art gallery in Milan and then, in 2015, he founded Deodato.Gallery Srl., the best-known brand for contemporary art in Italy. He is currently majority shareholder and Chairman of Deodato.Gallery S.p.A. since 2015. In 2020 he founded Lieu.City S.r.l. and VR Social for art events.

Cristian Forattini – CIO and CTO

From 1994 to 2000 he held the role of corporate application consultant at Scala Italia, a company specializing in the ERP Solution sector. Subsequently, from 2000 to 2004 he became Project Manager at the TC Sistema Group. From January 2005 up to date he holds the role of IT Manager at iCustom S.r.l., also a company specializing in the information sector. Since the establishment of the Company, he has held the position of CIO and CTO.

Luigi Luca Serrano – CFO

Qualified as a lawyer in 1998. In the same year, he became the owner of Studio Legale Associato Serrano in Milan. Since 2011 he has held the position of Chairman of the Board of Directors of Meccanica Finanziaria Corporate Finance S.p.A. and Carta Piana Capital Partners S.p.A. He currently holds the position of Financial Director at Deodato.Gallery SpA.

1.6 Innovative SME

The registration of Deodato Arte as an innovative SME at the Milan Register of Companies took place on 24 November 2022. The qualification of innovative SME for Deodato Arte occurred through the satisfaction of requirements related to industrial patents and Employees.

The first requirement was fulfilled following the filing aimed at registering the ART-ERP software. This software, using a database management system, is able to provide an integrated and continuously updated view of the core business processes specific to art galleries and the trade of artistic, historical, or design goods. In addition, the software is able to keep track of company resources and the status of company commitments relating to purchase orders and product warehouse, as well as facilitate the sharing of data and the flow of information between all company functions (production, purchases, sales, accounting, etc.) and manage links with external parties interested in the Group.

As for the staff, Deodato Arte enjoys highly qualified professional profiles and more than 50% of employees have obtained a master's degree.

The innovative SME qualification would allow Deodato to obtain several advantages, both in fiscal terms and in terms of access to finance.

In particular, from a tax point of view, the advantages refer to tax incentives for investors in share capital, internationalization services to companies (ICE), derogations from ordinary corporate discipline, an extension of the deadline for covering losses, derogation on the shell and systematic loss-making companies, remuneration through equity instruments.

The facilities in terms of loans concern the possibility for Deodato Arte to access equity crowdfunding, in exchange for the purchase of equity securities in the company, and the Central Guarantee Fund for SMEs in a simplified and free-of-charge way.

2. Business Model overview

2.1 Industry Business System

Chart 3 – Industry Business System



Source: Deodato.Gallery SpA

The reference sector of Deodato Arte is composed primarily of suppliers, who are represented by artists, art galleries (operating in the secondary market), auctions, foundations, and private individuals.

The art industry is a very fragmented market, characterized by the presence of a few competitive players of international scope with a small number of employees on one side and multiple small family-run galleries on the other. This market shows little interest in the opportunities offered by new technologies and digital and a high focus on curatorial aspects. This is a market that resists innovation and is difficult to access.

The distribution and sales channels of the works include art galleries, art fairs, e-marketplaces for art, auction houses, and exhibitions. As for the services related to the works, i.e. the rental of the same, the distribution channels are represented by museums, exhibitions, or brands. The distribution and sales channels are not aimed merely at selling the works but are a very useful tool for companies active in the sector to understand which are the most strategic places in which to open new locations.

The end customers of this market finalize their purchases to meet different types of requests, such as cultural needs, furnishing, expansion of a collection of family works, or, simply, investment.

As far as suppliers are concerned, the main trends in this market are the increasing use of e-commerce by artists and the general drive towards digital, encouraged by the globalization of flows. In the art industry, attention is shifting to galleries with more complex and international business models and there is an increase in the number of collaborations with the fashion and luxury sector. Recently, digital art and NFT (Non-Fungible Token) platforms have been introduced in the art market, as distribution and sales channels, which can represent an important tool for companies in the sector to increase brand awareness. End customers have recently expressed a desire for greater transparency, accessibility, and digitization, as well as an increase in awareness of their wishes.

2.2 Business Model

Chart 4 – Business model workflow



Source: Deodato.Gallery SpA

The Group stands out from other players active in the art industry thanks to a strong curatorial identity focused on Pop Art and Street Art movements.

The Group's business model consists of five main phases: the purchase, promotion of artists, distribution and sales, the provision of services, and end customers.

The way in which works of art are procured varies according to the artist. In detail, Deodato Arte can purchase works of art on the direct market, thanks to the existence of privileged relationships or exclusive territorial contracts with artists, or through third-party channels, that is through auction houses, art galleries, or private individuals, addressing recurring partners but also the best bidders on the market, in the case of deceased artists and/or those with a strong presence in the secondary market. With reference to purchases of works of art on the direct market, three different methods of purchase can be distinguished:

- the artist sells the work of art, Deodato Arte pays the fee and the sale of goods is made by invoice. This first mode tends to be used in the cases of non-contracted artists or highly renowned artists;
- the artist provides the work of art for sale and Deodato Arte pays the fee following the sale or returns the goods. This method is normally used in the case of non-contracted artists;
- the artist supplying the work of art receives a monthly deposit, delivers it on a weekly or monthly basis, and, when the adjustment is made, which takes place every three or six months, based on the sale and the price list of the different works, calculates the total value. If this amount is higher than the advances, then the adjustment is made, while if it is lower, then it is postponed until the next adjustment.

By purchasing or lending from collectors, Deodato Arte identifies works useful to form a unique body of cultural and commercial interest.

The second phase consists in the activation of a process of enhancement, research, and dissemination aimed at the promotion of artists. This can be achieved through official channels, such as websites, social media, print or digital magazines and blogs, funnel marketing and direct response marketing, press releases, museum exhibitions, and collaborations with related brands. The aforementioned enhancement process allows the Group to create interesting content for exhibitions, catalogs, articles, and pamphlets that serve as support for the placement of the cultural product in the most appropriate context. In the sales process of Deodato Arte, timing very often plays an extremely important role and certain products require a "seasoning" and, in general, a curatorial work of medium complexity before they can be sold. With reference to services, the Group creates or synthesizes storytelling that allows telling the body of works, which can be useful for the public of a museum or a brand. During the enhancement process, it is possible to use NFT or Metaverso technology.

Once the promotion phase of the artists is completed, the Group can distribute the products and services through different channels. In particular, the product is distributed both on B2C channels, represented by direct galleries (Deodato Arte Galleries), e-commerce sites, and trade fairs and on B2B channels, represented by other galleries. In addition, as of 2022, products can also be distributed through the franchise channel, which can be defined as B2B2C. With regard to services, museums, brands, and sometimes even private individuals are interested in renting or using in "pay per use" mode the corpus of physical or digital works.

For the second and third phases, Deodato Arte has carried out intense R&D activities, paying particular attention to the identification of algorithms and software aimed at optimizing customer meeting processes. Specifically, during 2021 and 2022, the Group devoted particular attention to the metaverse. In previous years, R&D has seen commitments, in the context of the enhancement and distribution phases, with dedicated software and procedures.

Following the distribution of services through the appropriate channels, we move on to the provision of services, which refer to the rental of works to museums, the creation or customization of events for large brands, the sale of royalties to brands, and other "pay per use" services or related to the metaverse.

The last phase of the business model concerns the end customer, who receives the product/service purchased. Each work received from the end customer is accompanied by a certificate of authenticity. In addition, the Group undertakes to send its customers regular updates on artists, new collections, and invitations for exhibitions and events.

2.3 Technology and development

As previously reported, technological development activities are carried out by the innovative start-up, as well as by the Group's subsidiary, Deodato.tech. The latter, in particular, deals with the following activities:

- **E-marketing**, in which the Company deals with the design of a forest of sites in order to create an articulated network of content (content marketing), the identification of funnel marketing strategies through the refinement of conversion algorithms (CTAs), and the identification and development of A/B tests in order to maximize indoctrination and customer nurturing techniques;
- **E-distribution**, within which Deodato.tech deals with Research and Development activities for the creation of an innovative and virtual platform in the Metaverse, as well as the experimentation of ChatBot, e-Accommodation through robots, Augmented Reality (AR), and Virtual Reality (VR);
- **Internal processes**, through the adoption of a shared system called Knowledge Base and the creation of internal software aimed at integrating CRM, warehouse, accounting documentation, passive and cash flow processes.

E-Marketing

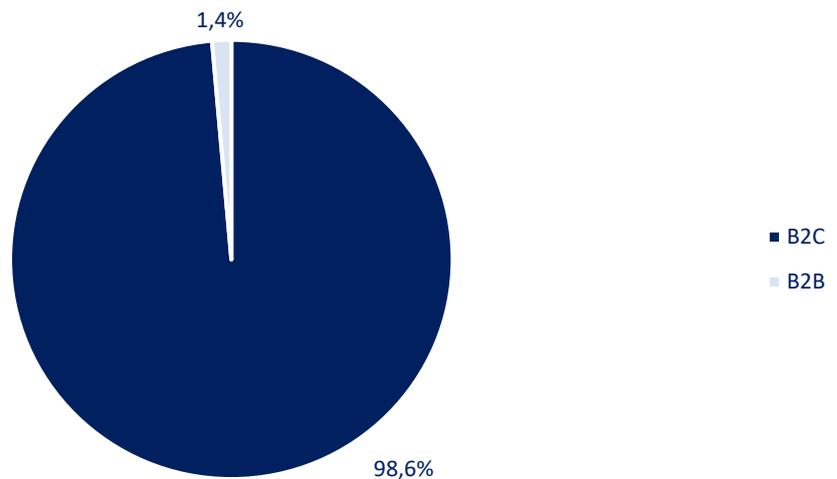
The development of e-marketing by the Company Deodato.tech can be divided into 3 main phases. Through content marketing, the Company creates a plurality of original editorial content, with the main purpose of promoting its team of artists through a process of enhancement, research, and dissemination. Among the main contents that are developed, we can find works and artists' cards, content on blogs and social networks, podcasts, informative pamphlets, and 3D reconstructions.

The content marketing material is then distributed online in order to generate a conversion (lead) thanks to a precise funneling strategy¹. For each potential customer who decides to leave a contact, a sequence of emails is created for marketing purposes useful to make the brand identity (values, artistic direction) and the commercial offer (artists, types of works) known. In addition, whenever the visitor's interest in a particular work on the website is demonstrated, the potential customer is contacted again with a personalized in-depth email. This process allows for identifying the customers who are really interested and willing to buy. The time required to acquire a potential customer takes on average a few weeks, but in some cases, it can also span a longer time frame ranging from 18 to 36 months.

After funneling, finally, we enter the customer nurturing phase, in which a personalized relationship with the customer is established and cultivated based on the customer's needs. The collector is accompanied by the choice of the most relevant work of art. After the sale, newsletters, printed magazines, invitations to fairs or events, and personalized or preview offers are sent periodically.

¹ Funnel model that analyzes all the steps of the transformation from user to customer or more simply all the steps that lead a user to a conversion.

Chart 5 – Percentage of e-commerce purchases by customer type (FY21A)



Source: Deodato.Gallery SpA

As can be seen from the above, e-commerce plays a fundamental role within the Group's business. Intending to focus on the latter, it can be noted that the majority of e-commerce purchases are made by users belonging to the B2C category (98.0%), thus confirming the goodness of the e-marketing strategies used by Deodato Arte.

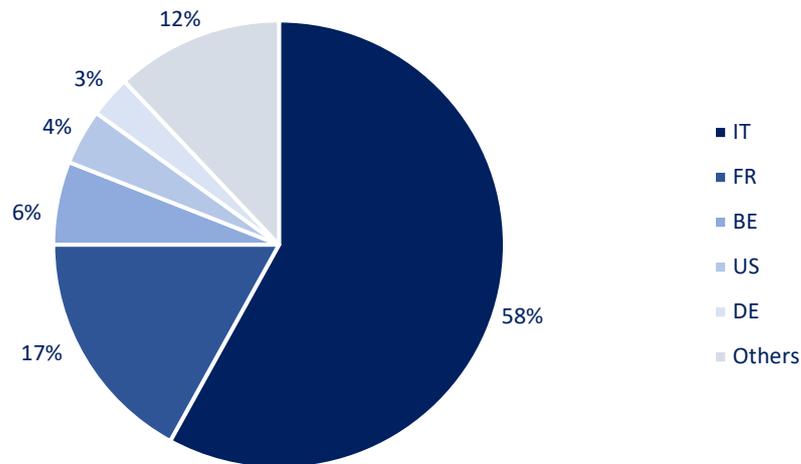
Table 2 – Marketing funnel and leads conversion e-commerce (FY21A vs 1H22A)

	FY21A	1H22A
Unique visitors	590.236	232.768
Lead (mail)	36.446	17.876
Engaged lead	472	184

Source: Deodato.Gallery SpA

During FY21A, the Group registered a total of 590,236 unique visitors on its website. Through the marketing funneling strategies adopted, the e-commerce site was able to generate an amount of 36,446 leads through email contact, finally managing to convert a total of 472 potential buyers. In the first 6 months of the year 2022, the growth of the e-commerce site continued. Unique visitors, amounting to 232,768, are slightly lower than in the same period of the previous year, as the Group has entered special filters to clean the statistics from bots and non-effective visitors. In fact, despite the decrease in this figure, the number of engaged leads stood at 184, remaining in line with the results as of 31 December 2021.

Chart 6 – Unique visitors by country (FY21A)



Source: Deodato.Gallery SpA

Finally, observing the breakdown of unique visitors to the e-commerce site from a geographical point of view, it can be seen that in 2021, Italians were the main visitors to the Group's website, with a percentage of 58.0%, followed by France (17.0%), Belgium (6.0%) and the United States (4.0%). During the first half of 2022, however, interest from US visitors increased, occupying the third position by importance (5.0%), with Italy and France remaining in first and second place, respectively with 71.0% and 9.0%.

E-Distribution

The Group has made continuous investments in research and development of an innovative platform for the metaverse. The metaverse indicates a three-dimensional virtual space within which physical people can move, share and interact through the use of virtual reality (VR) and augmented reality (AR) devices.

Thanks to continuous investments, the Company has created Deodato Island, an entire village in the metaverse with the aim of hosting immersive exhibitions, helping public relations with innovative content and offering added value to events and projects with brands. The necessary technology is provided by Lieu.city, while the content is developed by Deodato.tech. Deodato Island includes artists' ateliers and exhibitions, a multi-museum, press conferences, megastores, and e-commerce, villas assigned to customers, villas and demo apartments, wedding chapels, classroom, conference room & private rooms, AR & XR ready, immersive and multidevice.

In addition, in 2019 Deodato.tech, sensing the trends of the near future, experimented with VR and AR technologies and Chatbot², in addition to having developed physical robots for the reception of customers, who, in all sectors, are increasingly expressing their interest in undertaking their experience with the brands in a personalized and automatic way and requesting the support of a human operator only when they deem it necessary, generally after exploring the portfolio of products offered by the brand.

² Automatic responders based on the use of artificial intelligence.

Internal Processes

To collect, document, and make knowledge available, since 2015 the Group has implemented Knowledge Base, a shared system that collects all internal processes and procedures. The material collected through the Knowledge Base system over the years has become a real training course, which in 2022 was made available to the emerging franchising network and the general public through the Academyque partner (related party).

Continuing its path of technological development, in 2021 Deodato Arte developed internal software capable of integrating CRM, warehouse, accounting documentation, passive processes (purchases), and cash flow. The decision to implement the integrated IT system internally derives from the Group's objective of optimizing even the smallest business processes, with a view not only to greater transparency but also to reducing Employees costs. Deodato Arte has made use of Business Intelligence (BI) with the aim of providing in a dynamic and immediate manner every type of reporting useful both for management control and for the decisions of the marketing function.

The technological developments of Deodato Arte also concerned the warehouse. In fact, thanks to the proprietary CRM/ERP, each product can be identified through a QRCode, ensuring the traceability of the works in their physical and accounting process within the Group. In detail, the software is equipped with articulated algorithms that allow staff not to make mistakes. Recently, the Group has made further investments in R&D with the aim of transforming QRcodes into RFID tags that will be active by the end of 2023.

2.4 Portfolio of products and services

Deodato Arte's offer includes products and services. With reference to the products, three different categories are distinguished:

- **Established, mid-career, or emerging artists**, who offer high marginality but, at the same time, require a high curatorial effort. These include Mr. Savethewall, Daniele Fortuna, José Molina, Marco Glaviano, JonOne, and TV Boy;
- **Branded artists with a direct or privileged relationship**, which have allowed the Company to obtain the best position in Italy and a relevant position at the European or world level. These include Mr. Brainwash, Obey, David LaChapelle, Banksy, Romero Britto, Angelo Accardi, Marco Lodola;
- **Missing artists or on the secondary market**, among the best-selling are Andy Warhol, Keith Haring, Roy Lichtenstein, Fernandez Arman, Jeff Koons (editions) Takashi Murakami (editions), David Kracov and Damien Hirst. In addition, over the years excellent results have been achieved with signed editions by Chagall, Picasso, Mirò, and other great classical artists.

The services, on the other hand, which bring a high marginality to the Group, differ in four types:

- **Rental of works to museums:** Deodato Arte, including unique prices and editions, holds a collection of over 7,000 works, which are offered for rent to museums and international exhibition spaces, which require a selection of them or entire exhibitions for their own exhibitions. To date, the Group is the most important Italian supplier of works by Banksy for museum exhibitions:
- **Events for brands:** Deodato Arte's Project Management is highly specialized in the creation and customization of events for important brands, which, more and more frequently, choose art to add value to their corporate events, private parties, set-ups

of their public spaces, or commercial launches. For this purpose, in the past, renowned brands, such as Tiffany & Co., Campari Soda, and Aspesi have turned to Deodato Arte;

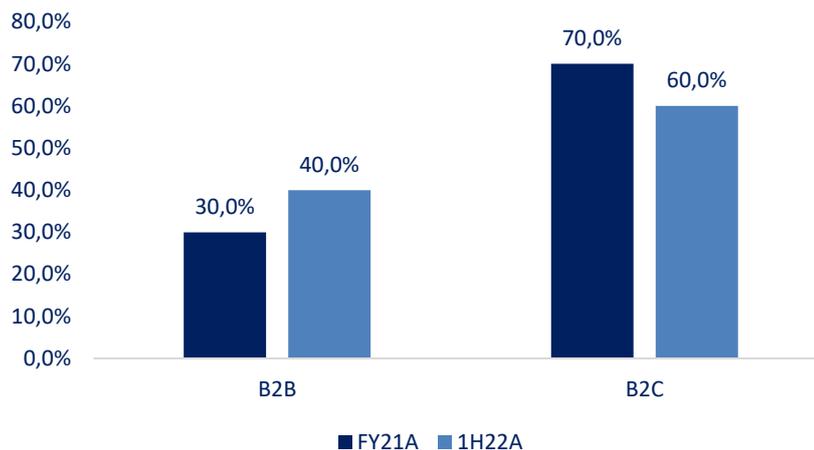
- **Transfer of royalties:** if the co-branding operations also extend to product customization, brand identity, capsule collection with works by artists managed exclusively by Deodato Arte, the process of transferring royalties is implemented. Therefore, Deodato Arte authorizes the brand to use images within the limits of certain conditions. In the past this has happened with reference to the following collaborations: Birra Moretti for José Molina, The Medelan for Mr.Savethewall, Romero Britto for Bellini Nautica, and Mr.Brainwash for Verona Art Hotel;
- **NFT and Metaverso:** since 2020, thanks to the use of Lieu.City technology, the Group has created, developed, and implemented its activities in the field of digital art and VR. Currently, Deodato Arte is the first art gallery to have built its metaverse, the "Deodato Island", where one can visit exhibitions, hold conferences, view the warehouse, and broadcast NFT.

2.5 Clients and Providers

2.5.1 Clients

The Group has a customer base of over 2,500 medium-high-end customers, who distinguish themselves as private individuals (B2C), who purchase the product on the e-commerce site, during trade fairs or at road galleries, and other art galleries (B2B), to which Deodato Arte sells works of artists with an exclusive contract. In addition, the Group has an email registry of over 70,000 units and with its sites develops 2,000 unique visits and more than 90 leads per day.

Chart 7 – Clients Breakdown FY21A – 1H22A



Source: Deodato.Gallery SpA

In FY21A, the Deodato Group, with an average sales price of € 3,432, made 1,696 sales, of which 7.0% with amount greater than € 10,000, reaching 70.0% of customers through the B2C sales channel and the remaining 30.0% through the B2C sales channel.

In 1H22A, the Deodato Group, with an average sales price of € 4,256, made 861 sales, of which 8.0% with amount greater than € 10,000, reaching 60.0% of customers through the B2C sales channel and the remaining 40.0% through the B2C sales channel.

Chart 8 – Top 10 Clients Weight FY21A – 1H22A



Source: Deodato.Gallery SpA

The impact on sales of the first ten customers of Deodato Arte, which is considered representative of the entire Group, is equal to a total of 20.1% in FY21A, thus not highlighting a situation of excessive dependence on them. In detail, among the first ten customers, seven are B2C, which contributed to determine the incidence recorded at the end of 2021 by 16.1%, while the remaining are B2B customers, which produced 4.0% of the total incidence of FY21A. For the first half of 2022, the data relating to the impact on sales of the first ten customers of Deodato Arte remain substantially in line (26.0%).

The main sales channels of Deodato during 2021 and the first half of 2022 were the Deodato brand and Love Spot Galleries road shops, e-commerce sites (both Italian and foreign), directional client flags, and other third-party distribution galleries (B2B).

With reference to the Love Spot Galleries brand, the franchise contract will have a duration of five years, with the possibility of tacit renewal for a further five years.

The Group, based on the type of customer, offers three different price lists:

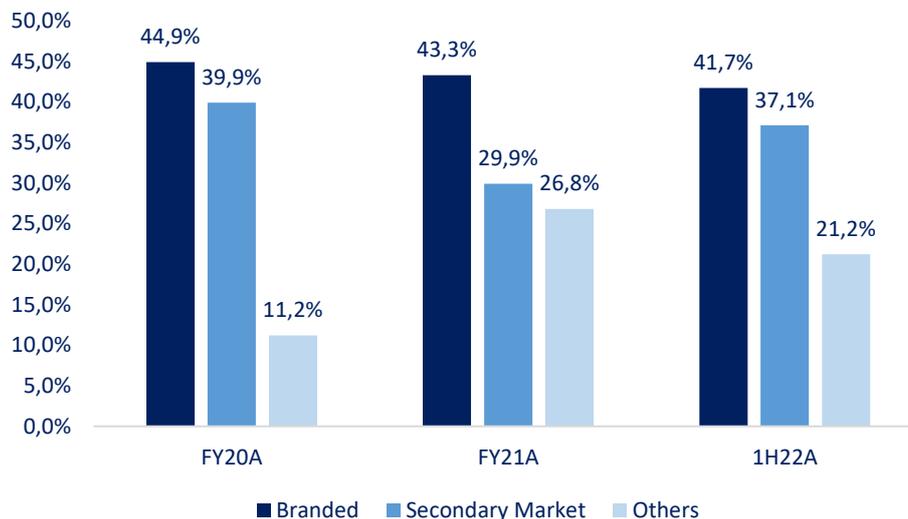
- B2C public price list;
- B2B and Franchising price list;
- List of beacons.

2.5.2 Providers

The Group's main providers are divided into three categories:

- **Branded artists with a direct or privileged relationship**, including Mr. Brainwash, Banksy, Obey, Romero Britto, David LaChapelle, Takashi Murakami (Editions), Angelo Accardi, and Marco Lodola. These are international artists from which Deodato Arte has obtained the best position in Italy and a significant position at the European level;
- **Missing artists or on the secondary market³**, of which the best-selling are Andy Warhol, Keith Haring, Roy Lichtenstein, Fernandez Arman, Jeff Koons (editions) Takashi Murakami (editions), David Kracov, and Damien Hirst. In addition, over the years an excellent work has been carried out with signed editions of Chagall, Picasso, Mirò, and other great classical artists;
- **Established, mid-career, or emerging artists**, such as Mr. Savethewall, Daniele Fortuna, José Molina, Marco Glaviano, JonOne, and TV Boy. These are artists who offer high marginality but also the greatest curatorial effort.

Chart 9 – Main Providers Weight by category FY20A – 1H22A



Source: Deodato.Gallery SpA

For FY21A, the incidence of suppliers belonging to the Branded category was 43.3%, a slight decrease compared to the previous year (44.9%). Suppliers included in the Secondary Market and Others categories account for 29.9% of the FY21A Group's turnover (39.9% at FY20A) and 26.8% (11.2% at FY20A).

Considering, however, the first half of 2022, an incidence of 41.8% is observed for suppliers included in the Mainstream category, while suppliers belonging to the Secondary Market and Others categories affect the Group's turnover of 1H22A by 37.1% and 21.2%, respectively.

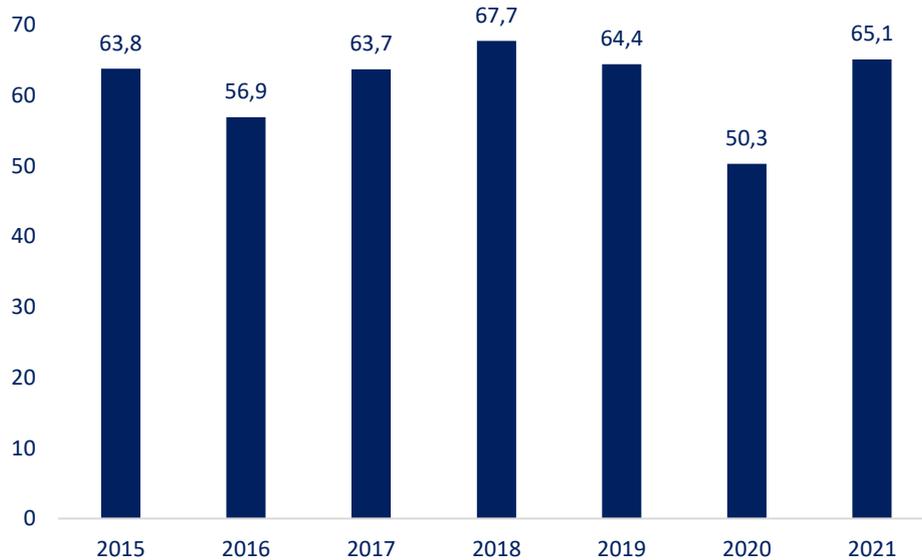
³ Reference is made to Auction Houses, Collectors and Galleries.

3. The market

Deodato Arte, through its activity, operates within the art industry, with a particular focus on street art and pop art.

3.1 Global online art market

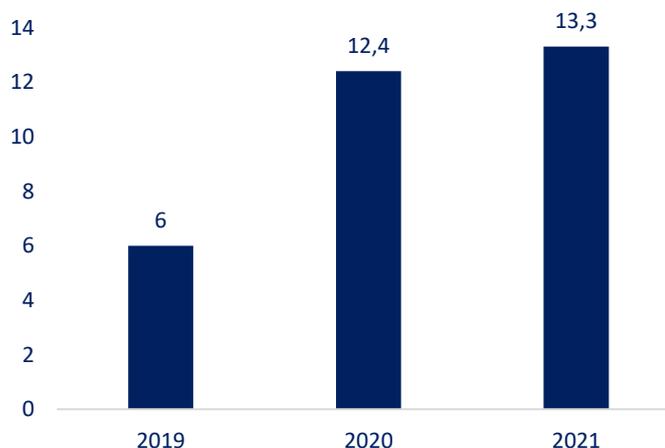
Chart 10 – Value of global Art Market sales 2015-2021 (\$/billion)



Source: Elaboration Arts Economics, 2022 from data collected by Artory

Since 2015, the year of the establishment of the company Deodato.Gallery SpA, the growth flow of the art market has been constant. In 2021, the global art market recorded a strong recovery, reaching an estimated amount of \$ 65.10 billion, equal to 29.0% compared to the value of 2020 and exceeding the market value by \$ 0.70 billion in 2019. The volume of global sales of works of art has also grown significantly since 2021. Specifically, online sales accounted for about a fifth of the total market value in 2021.

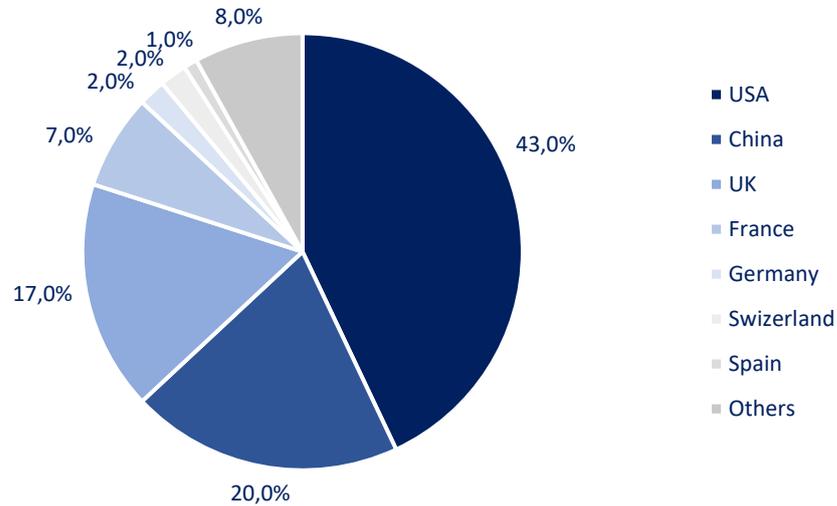
Chart 11 – Online Art and Antiques sales 2019-2021 (\$/billion)



Source: Art Economics, 2022

In fact, looking at the graph above, you can see that, despite the contraction in sales in 2020, online art sales reached the highest level ever recorded, reaching the share of \$ 12.40 billion, equal to twice the value of 2019. The growth of the online sector continued in 2021, increasing by 7.0% and reaching a share of \$ 13.30 billion.

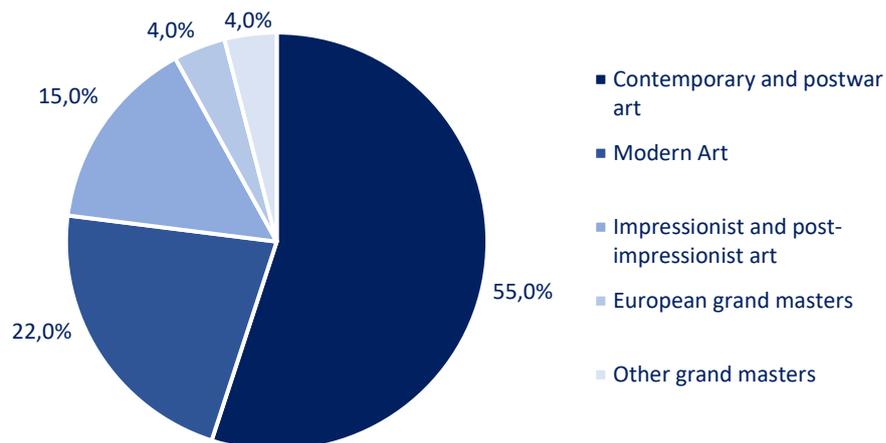
Chart 12 – Global art value market share 2021



Source: Art Economics, 2022

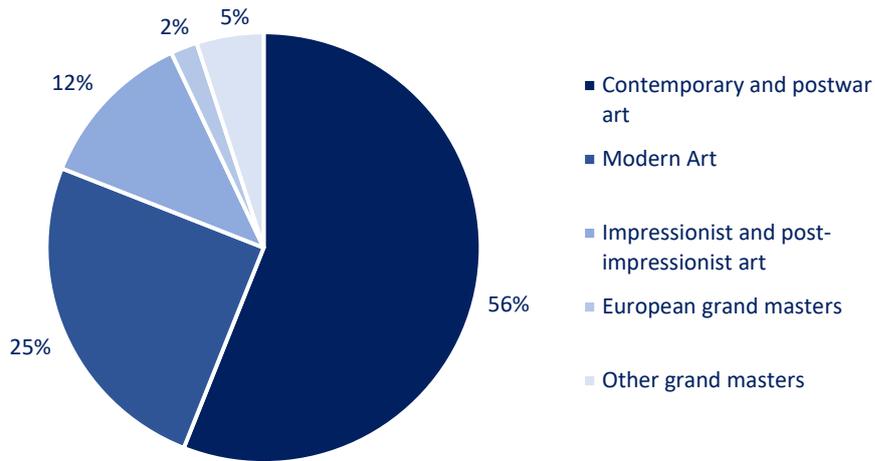
As shown in the graph above, at the global geographical level the three largest art markets in 2021 are the United States, followed by China and the United Kingdom, representing 43.0%, 20.0%, and 17.0% respectively.

Chart 13 – Market share by sector of the fine arts auction market (Sales Value - 2021)



Source: Elaboration of Art Economics, data collected by Artory, 2022

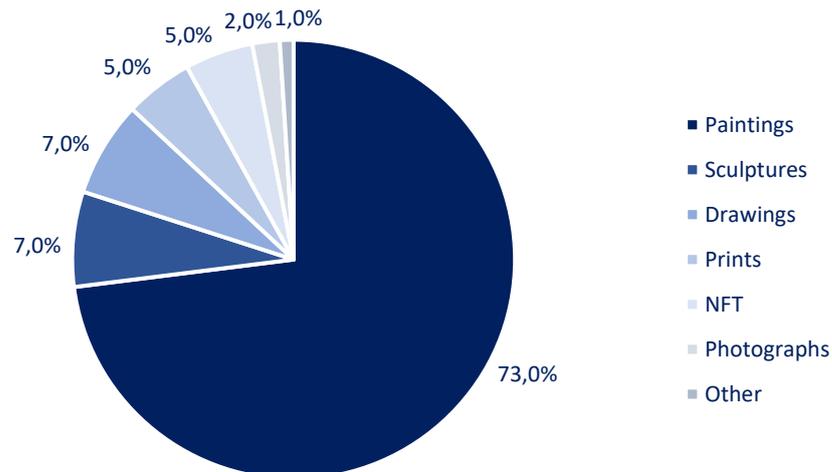
Chart 14 – Market share by sector of the fine arts auction market (N. of lots sold - 2021)



Source: Elaboration of Art Economics, data collected by Artory, 2022

Observing the breakdown of the market by type of artistic current, it can be seen that post-war and contemporary art occupies the largest slice of the fine arts auction market in 2021, with a share of 55.0% of the value of sales at global auctions and 56.0% with reference to the number of lots sold. Sales amounted to \$ 6.70 billion, registering an increase of 42.0% compared to the previous year. Within this sector, sales of works created in the last 20 years have reached \$ 2.50 billion at auction, with a value more than doubled compared to 2020. Next, the second sector in the fine arts auction market in 2021 turns out to be modern art, with a share of 22.0% referring to the value of sales and 25.0% with regard to the number of lots sold. For this artistic current, sales improved in 2021, increasing by 23.0% and reaching a value of \$ 2.70 billion. These sectors accounted for 77.0% of the value of sales in fine arts auctions in 2021 and 81.0% of the number of lots sold.

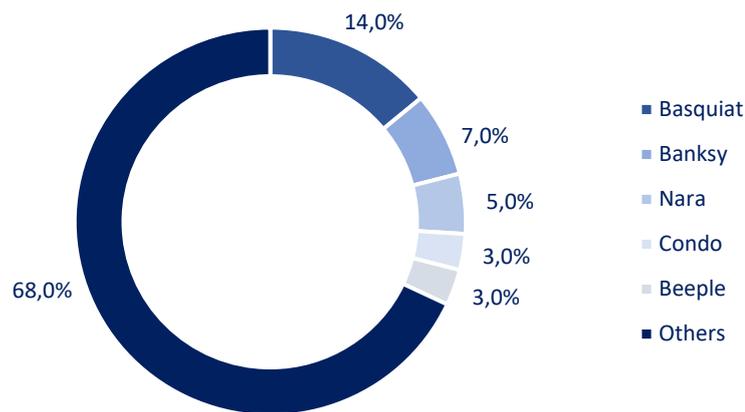
Chart 15 – Contemporary art sales by type (2020-2021)



Source: Art Market, The Contemporary Art Market Report in 2021 – 24th Edition

Referring to contemporary art, it should be noted that the latter is the most dynamic and profitable segment of the entire art market. The price index for contemporary art reached an all-time high in early summer 2021. During the 2020/2021 fiscal years, \$ 2.70 billion of contemporary works were sold at auction, of which \$ 127.60 million in NFTs. It should be noted that 90.0% of the works were sold below \$ 0.02 million and 1,284 new artists were detected. At the level of type of sale, the paintings remain the main medium of the market both in terms of value (\$ 2.00 billion, equal to 73.0% of the total turnover of the contemporary segment) and in terms of lots sold (42.0%). Works on canvas also accounted for 82.0% of the results above the \$ 1.00 million threshold, compared to 6.0% of the pictures and 6.0% of the sculptures.

Chart 16 – Weight (%) of top 5 artists on total contemporary art auction sales (2020/2021)



Source: Artprice.com, 2021

As mentioned above, the contemporary art segment recorded a historic performance in the 1st half of 2021, with an increase of 50.0% compared to the 1st half of 2019. The other segments, such as modern and post-war art, failed to regain their pre-crisis levels of intensity, registering a decrease of -8.0% and -4.0% respectively. Contemporary art today accounts for 23.0% of the total turnover of fine arts auctions worldwide, compared to 3.0% twenty years ago. In this context, there are five emerging artists who together make up almost a third of the total turnover of the contemporary art market: Basquiat (14,0%), Banksy (7,0%), Nara (5,0%), Condo (3,0%), and Beeple (3,0%).

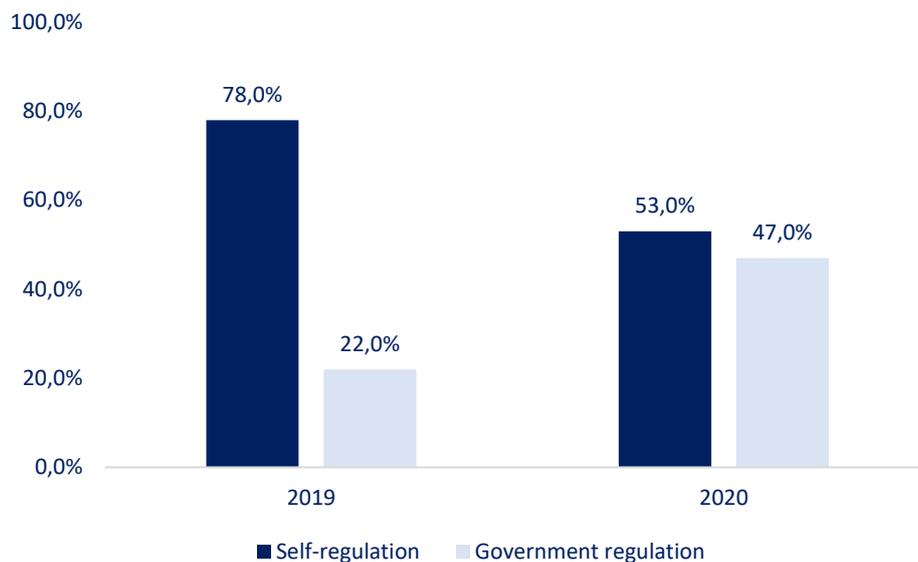
3.2 Macro-Trend 2022

Currently, within the Art Market, four main macro-trends can be distinguished, on which new segments of the sector are being developed. These macro trends can be identified in:

- Regulatory regulations;
- Greater transparency;
- Smart City;
- Online market and NFT.

3.2.1 Government regulations

Chart 17 – Propensity for government regulation (%) 2019 VS 2021



Source: Deloitte & ArtTactic Finance Report, 2021 Columbia Business Law Review, 2020 & British Art Market Federation, 2022

The issue of regulation has always been divided into two opposing views:

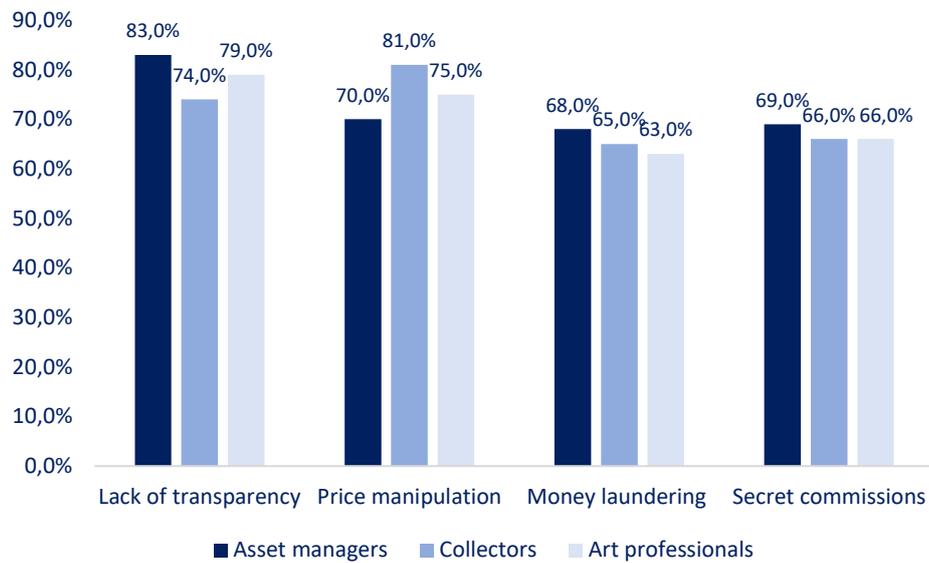
- Self-regulation;
- Government intervention.

Over the last five years, there has been a shift of collectors towards a more interventionist approach: 47.0% of market operators in 2021, compared to 22.0% in 2019, have shown a strong preference for greater government regulation in order to restore greater confidence. Over the last few years, several steps have been taken to increase the propensity for government intervention:

- In 2015, the Responsible Art Market Initiative (RAM) was established, in order to provide guidance to simplify confusing and constantly evolving regulations;
- In January 2020, the EU's Fifth Anti-Money Laundering Directive (5AMLD) was introduced, aimed at regulating art markets, galleries, and auction houses in the EU and the UK with the aim of preventing fraud;
- In June 2021, Member Countries have the Sixth Anti-Money Laundering Directive (issued by the European Union during 2018), tightening sanctions in case of fraud;
- In June 2022, the anti-money laundering guidelines (AMLs) in the United Kingdom were updated and the Know Your Customer (KYC) legislation was applied, which provides for the implementation, by the Art Market Participants (AMPs), of customer due diligence on the person or entity that is paying it.

3.2.2 Trasparency

Chart 18 – Issues that most threaten the reputation of the art market in 2021



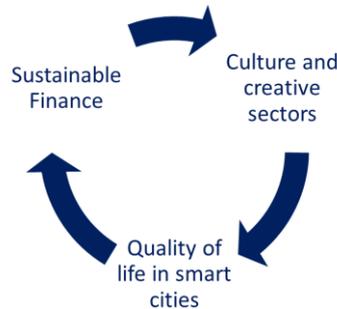
Source: Deloitte & ArtTactic Finance Report, 2021

Greater transparency appears to be necessary in order to assess the authenticity and traceability of the source of the artwork being exchanged. In 2021 83.0% of wealth managers stated that lack of transparency is a key factor undermining confidence in the art market (compared to 77.0% in 2019). Both art collectors (74.0%) and art professionals (79.0%) identified this as a challenge and transparency ranked even more decisive among young collectors, with 86.0% of whom declared this as one of the main challenges of today's art market. Another factor that may threaten the reputation of the art market is price manipulation. In fact, it can be seen that, especially for collectors (81.0%), this factor is relevant in order to defend the reputation of the market.

It is clear that technology is the protagonist in this new paradigm shift. Asset managers firmly believe that the technology will improve the traceability of the origin of art (80.0%), will mitigate the risks of authenticity (67.0%) thus improving the evaluation processes (61.0%) and increasing the overall transparency of the art market (79.0%).

3.2.3 Smart city

Chart 19 – Interconnection between art, culture, and technology



Source: Smart Cityness, 2022

The already growing investments in cultures could benefit the increasingly central and preponderant role of the latter within a Smart City strategy.

The Smart City is a new model of the city that provides the optimization of services to the citizen using new sources of energy, new mobility systems, and new models of economic development. In this innovative context, the combination of technology, culture, and art is considered necessary, since the improvement of the quality of life not only requires technology, but it is also a matter of connection and inspiration between people.

To confirm this, in 2021 28.0% of collectors and 31.0% of art professionals identified sustainable impact investment in art as the most interesting, a view shared especially among young people under 35 years of age.

3.2.4 Online Marketplace and NFT

In addition to the remarkable growth that the online art market has recorded in the last two years, sales of NFT art objects and collectibles also recorded substantial growth in 2021. The value of sales for art-related NFTs increased by more than a hundred times compared to 2020, reaching a value of \$ 2.60 billion. The volume of transactions also grew rapidly, from just over 755,760 in 2019 to 5.5 million, with collectibles strongly dominating the number of sales (85.0% of transactions in 2021).

33.0% of wealth managers stated that their clients expressed a greater interest in NFTs. Sales of art and collector's NFTs grew from a value of \$ 4.60 million in 2019 to \$ 11.10 billion in 2021.

4. Competitive positioning

Table 3 – Main Competitor (2021 data)

€/mln	VoP	Ebitda	Ebitda %	Net Income	Net Income %	NFP
	2021	2021	2021	2021	2021	2021
Company						
Galleria d'arte Contini Srl	14,26	0,01	0,1%	-0,23	-1,6%	2,78
Galleria Continua Srl	14,70	1,42	9,7%	0,91	6,2%	0,91
Cardi Gallery Srl	3,27	-0,02	-0,5%	-0,05	-1,5%	-0,52
Galleria Mucciaccia Srl	3,20	0,08	2,6%	0,02	0,8%	0,01
Galleria Kaufmann Srl	4,27	0,41	9,6%	0,21	5,0%	-0,50
Median	4,27	0,08	2,6%	0,02	0,8%	0,01
Deodato.Gallery SpA	5,39	1,35	20,7%	0,88	16,3%	0,42

Source: Orbis, Integrae SIM processing

At the national and international levels, in carrying out its activities, the Group competes with some of the main galleries of modern and contemporary art. Specifically, the main strengths that allow the Group to stand out from its most important (especially national) competitors are represented by the presence of an established ICT structure, through the possession of an e-commerce structure for the purchase and sale of works of art, as well as the use of innovative marketing processes and the investments necessary for the introduction of an innovative platform for Metaverso and NFT.

As shown in the table above, the Group is able to obtain much higher levels of marginality compared to its competitors, thanks above all to its inbound sales structure which will have 14 offices in Italy and abroad by the end of the year. Inbound is heavily based as mentioned above on websites that develop leads to reach about 130 sales per month. Another point in favor of the Group is the reliability of the brand, with a strong prominence of mainstream artists, with whom there are distribution agreements, a warehouse always supplied, and a very strong SEO positioning. In addition to the brand, technology, multichannel and the offer of renowned artists represent the main competitive advantages that allow the Group to stand out from its competitors.

4.1 Swot Analysis

Strengths:

- Brand position and brand awareness;
- The mix of products and artists;
- Advanced technology and presence in the metaverse;
- Offer of consultancy services (B2B);
- Transparency.

Weaknesses:

- Weakness of the brand in foreign countries and difficulty in entering their markets;
- Timing and costs of internationalization.

Opportunities:

- Need to complete the offer with artists not easy to reach due to economically demanding agreements;
- Development in foreign markets;
- Fragmented market with the possibility of consolidation (also through M&A operations).

Threats:

- Competitor international galleries could try to enter Italy;
- Positioning of competitor galleries on relevant foreign sites with exclusive agreements;
- Struggle to contract mainstream artists.

5. Economics & Financials

Table 4 – Economics & Financials

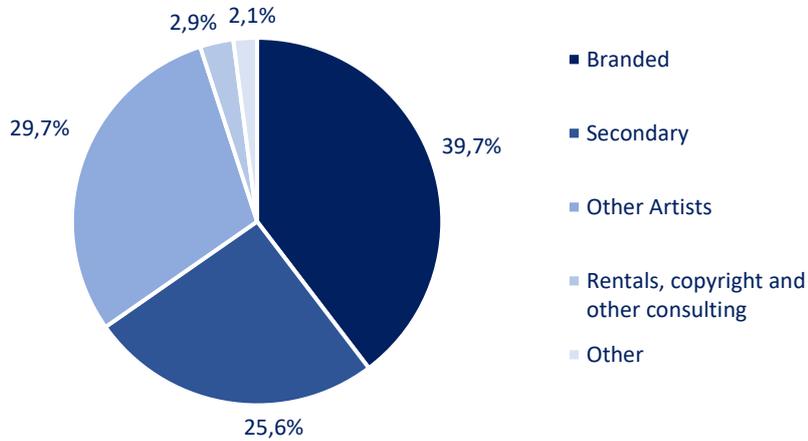
CONSOLIDATED INCOME STATEMENT (€/mln)	FY21A	FY22E	FY23E	FY24E	FY25E
Revenues	5,88	9,75	13,90	18,90	25,45
Other Revenues	1,25	1,20	1,25	1,95	2,15
Value of Production	7,13	10,95	15,15	20,85	27,60
COGS	3,91	5,75	8,10	11,10	14,90
Services	0,99	1,35	1,80	2,25	2,85
Use of Asset owned by others	0,25	0,55	0,70	0,90	1,00
Employees	0,41	0,70	0,95	1,25	1,75
Other operating costs	0,12	0,20	0,15	0,15	0,25
EBITDA	1,46	2,40	3,45	5,20	6,85
<i>EBITDA Margin</i>	<i>20,4%</i>	<i>21,9%</i>	<i>22,8%</i>	<i>24,9%</i>	<i>24,8%</i>
D&A	0,12	0,10	0,25	0,25	0,25
EBIT	1,34	2,30	3,20	4,95	6,60
<i>EBIT Margin</i>	<i>18,8%</i>	<i>21,0%</i>	<i>21,1%</i>	<i>23,7%</i>	<i>23,9%</i>
Financial Management	(0,03)	(0,05)	(0,05)	(0,05)	(0,10)
EBT	1,31	2,25	3,15	4,90	6,50
Taxes	0,38	0,55	0,75	1,20	1,60
Net Income	0,93	1,70	2,40	3,70	4,90
CONSOLIDATED BALANCE SHEET (€/mln)	FY21A	FY22E	FY23E	FY24E	FY25E
Fixed Assets	0,52	0,45	0,85	0,70	0,55
Account receivable	0,52	1,15	1,65	2,20	2,95
Inventories	3,08	3,90	4,75	6,35	8,80
Account payable	1,69	1,40	1,80	2,65	3,65
Operating Working Capital	1,91	3,65	4,60	5,90	8,10
Other receivable	0,44	0,65	0,55	0,55	0,60
Other payable	1,17	0,70	0,80	1,25	1,45
Net Working Capital	1,18	3,60	4,35	5,20	7,25
Severance Indemnities & Other Provisions	0,15	0,10	0,15	0,20	0,25
NET INVESTED CAPITAL	1,55	3,95	5,05	5,70	7,55
Share Capital	0,26	0,26	0,30	0,30	0,30
Reserves	0,09	1,02	4,83	7,23	10,93
Net Income	0,93	1,70	2,40	3,70	4,90
Equity	1,27	2,97	7,52	11,22	16,12
Cash & Cash Equivalent	0,49	0,42	3,32	5,82	8,62
Short Term Financial Debt	0,15	0,55	0,50	0,25	0,05
M/L Term Financial Debt	0,61	0,85	0,35	0,05	0,00
Net Financial Position	0,27	0,98	(2,47)	(5,52)	(8,57)
SOURCES	1,55	3,95	5,05	5,70	7,55
CONSOLIDATED CASH FLOW (€/mln)	FY22E	FY23E	FY24E	FY25E	
EBIT	2,30	3,20	4,95	6,60	
Taxes	0,55	0,75	1,20	1,60	
NOPAT	1,75	2,45	3,75	5,00	
D&A	0,10	0,25	0,25	0,25	
Change in receivable	(0,63)	(0,50)	(0,55)	(0,75)	
Change in inventories	(0,82)	(0,85)	(1,60)	(2,45)	
Change in payable	(0,29)	0,40	0,85	1,00	
Change in others	(0,68)	0,20	0,45	0,15	
<i>Change in NWC</i>	<i>(2,42)</i>	<i>(0,75)</i>	<i>(0,85)</i>	<i>(2,05)</i>	
Change in provisions	(0,05)	0,05	0,05	0,05	
OPERATING CASH FLOW	(0,62)	2,00	3,20	3,25	
Capex	(0,03)	(0,65)	(0,10)	(0,10)	
FREE CASH FLOW	(0,65)	1,35	3,10	3,15	
Financial Management	(0,05)	(0,05)	(0,05)	(0,10)	
Change in Debt to Bank	0,64	(0,55)	(0,55)	(0,25)	
Change in Equity	0,00	2,15	0,00	0,00	
FREE CASH FLOW TO EQUITY	(0,06)	2,90	2,50	2,80	

Source: Integrae SIM

5.1 FY21A Results

In the financial statements as of 31 December 2021, the Group generated net revenues of € 5.88 million and a value of production equal to € 7.13 million.

Chart 20 – Revenues Breakdown by Product FY21A (€/mln)



Source: Integrae SIM

During FY21A the Branded artists category contributed 39.7% of total revenues. Subsequently, the revenue items Other artists, Secondary and Rentals, Copyright, and other consultancy accounted for 29.7%, 25.6%, and 2.9% of the total, respectively.

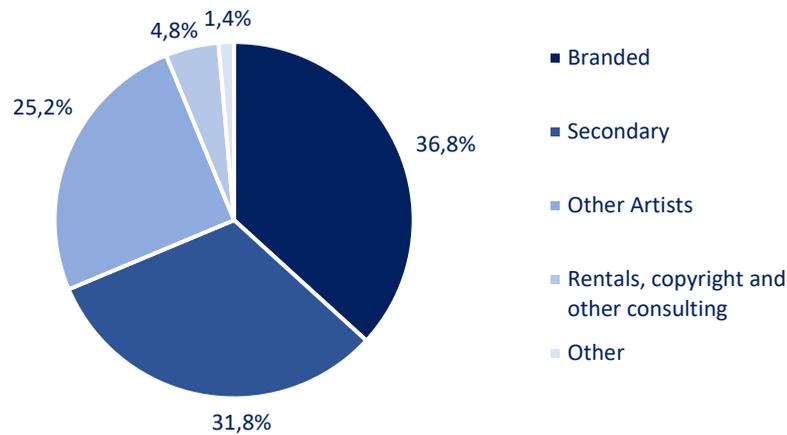
EBITDA amounted to € 1.46 million, corresponding to an EBITDA of 20.4%. EBIT, after amortization and depreciation of € 0.12 million, amounted to € 1.34 million, corresponding to a margin of 18.8%. In FY21A, the Group recorded a Net Income of € 0.93 million.

In terms of the Balance Sheet, the NFP amounts to € 0.27 million of debt.

5.2 1H22A Results

In the financial statements as of 30 June 2022, the Group generated net revenues of € 4.76 million and a value of production equal to € 5.79 million.

Chart 21 – Revenues Breakdown by Product 1H22A (€/mln)



Source: Integrae SIM

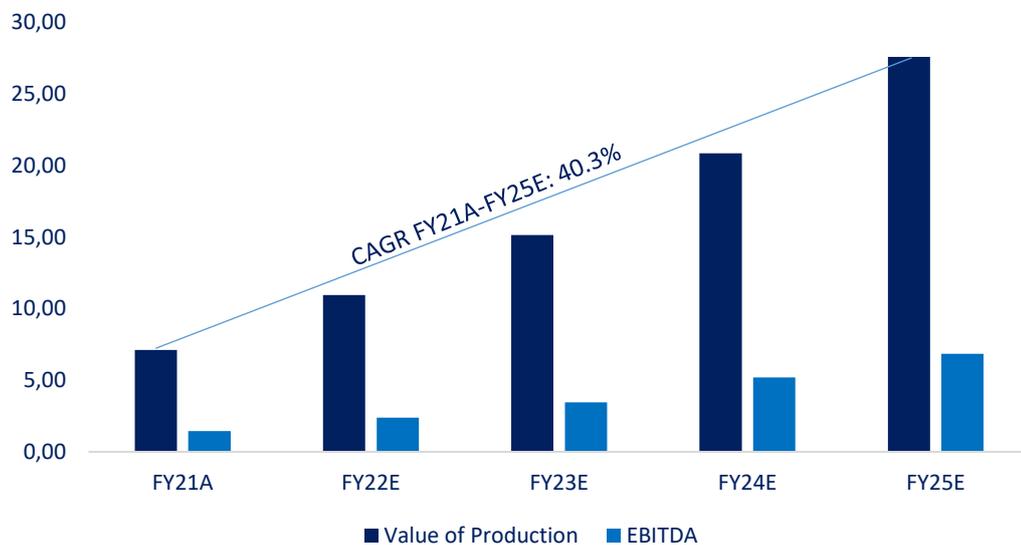
During 1H22A, the Branded artists category contributed 36.8% of total revenues and the Other artists revenue item represented 25.2% of the total, compared to a figure as of 31 December 2021 equal to 39.7% and 29.7% respectively. Subsequently, the item of Secondary Revenue and Rentals, Copyright, and other consultancy represented 31.8% and 4.8% of the total, up compared to the incidences of FY21A, equal to 25.6% and 2.9%.

EBITDA amounted to € 1.43 million, corresponding to an EBITDA of 24.7%. EBIT, after amortization and depreciation of € 0.04 million, amounted to € 1.39 million, corresponding to a margin of 24.0%. In 1H22A, the Group recorded a Net Income of € 0.96 million.

In terms of the Balance Sheet, the NFP went from € 0.27 million of debt for FY21A to € 0.57 million on 30/06/2022, mainly to support the increase in Net Working Capital, from € 1.18 million on 31/12/21 to € 2.64 million in the first 6 months of 2022.

5.3 FY22E-FY25E Estimates

Chart 22 – VoP and EBITDA FY21A – FY25E



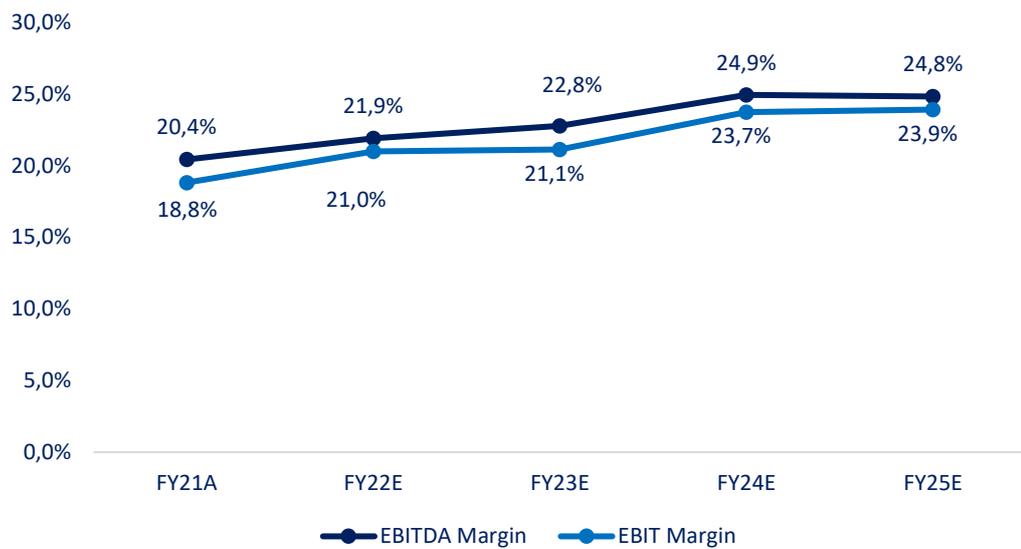
Source: Integrae SIM

For the coming years, we expect an increase in the value of production which, according to our estimates, will increase from € 7.13 million in FY21A to € 27.60 million in FY25E (CAGR 21A-25E: 40.3%).

We believe that in the plan years growth will be driven mainly by the following drivers:

- Further contracting of new Branded artists or shortening of the value chain, with the possibility of co-producing exclusively with internationally important artists entire collections of works to be sold on B2B and B2C channels;
- Opening of new offices both nationally (in the main strategic locations in Italy) and internationally;
- Expansion of all digital sales channels thanks to the addition of the German and Spanish languages, as well as the development of additional channels on metaverse and AR, also through the offer of digital works (NFT);
- Development of a dense franchise network of the new Love Spot Galleries brand with direct galleries in major cities and indirect galleries in smaller centers.

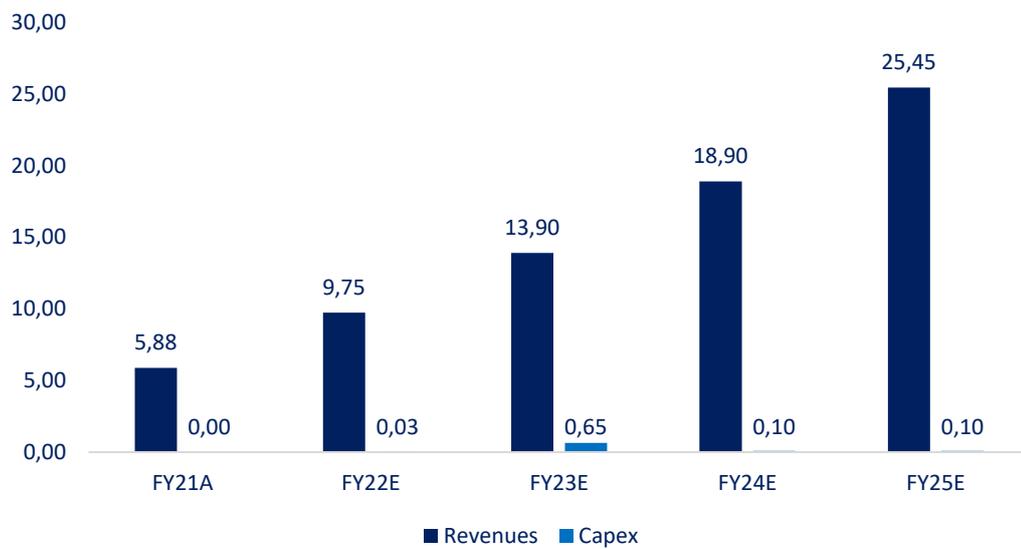
Chart 23 – EBITDA and EBIT margin FY21A – FY25E



Source: Integrae SIM

We expect an increase in EBITDA which, according to our estimates, will increase from € 1.46 million in FY21A to € 6.85 million in FY25E, for an EBITDA margin that will grow significantly from 20.4% to 24.8%. We expect that the growth in marginality will be driven, in addition to the reasons mentioned above, also by the Group's assessment of extraordinary operations in Italy and abroad with a focus on mid-career artists, highlighting the model of the already acquired Wunderkammern. We believe that the Group will aim to expand its offer also through the addition of new categories of artists (such as historicized artists of the twentieth century).

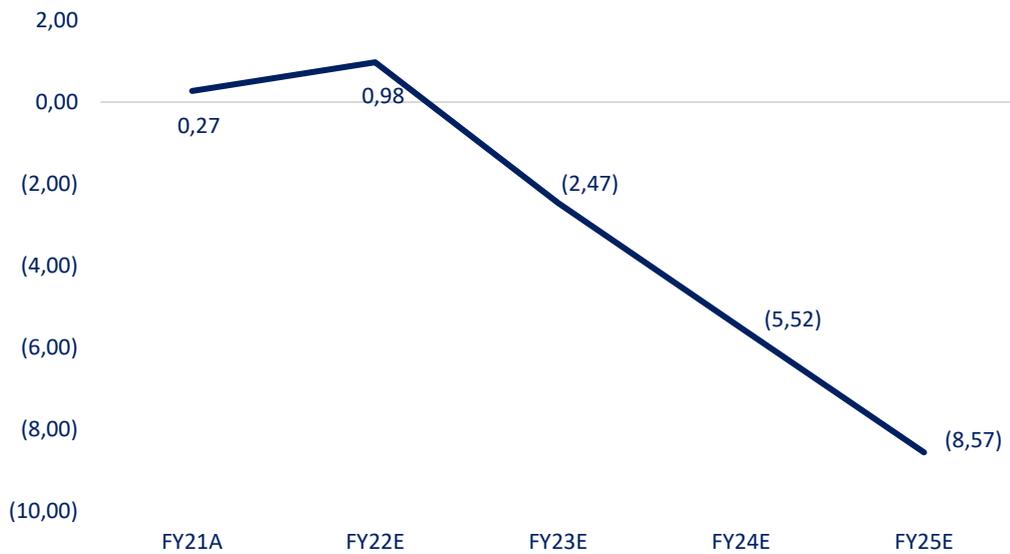
Chart 24 – Revenues and Capex FY21A – FY25E



Source: Integrae SIM

At the Capex level, we estimate that the Group will continue to invest mainly in technologies and in particular in the development of the core activities of the subsidiary Deodato.Tech and on a residual basis in improvements to third-party assets and extraordinary work for galleries rental.

Chart 25 – Net Financial Position FY21A – FY25E



Source: Integrae SIM

We believe that the Group can improve its NFP in the years following FY22E, thanks to the positive cash flows generated by the progressive increase in turnover and the management of working capital. In particular, we estimate that the NFP can reach a cash positive value in FY25E equal to € 8.57 million.

5.4 Use of Proceeds

The Group has completed the listing on the Euronext Growth Milan market to find resources aimed at continuing its growth path. Deodato Arte has planned as post-collection objectives both strategies aimed at consolidating its competitive position and strengthening the B2B and B2C channels, and to continue with external growth through extraordinary finance operations aimed at creating strategic synergies.

In particular, the Group intends to allocate the collection:

- internal expansion of the B2B department, services to brands and museums, and franchising development;
- technological development (internal processes, Metaverse, AR, NFT, inclusion of two new languages on digital channels);
- the opening of the first gallery in the United States;
- the strengthening of relations with artists already in the portfolio and the acquisition of new ones, in order to put additional entry barriers for competitors and to strengthen the B2B and B2C channels.

With reference to the external growth, the Group, following the listing, will evaluate the acquisition of other galleries and competitors that can integrate the offer of products and services of Deodato Arte.

6. Valuation

Given the lack of companies comparable with Deodato Arte, we conducted the valuation of the Group's equity value based on the DCF methodology alone.

6.1 DCF Method

Table 5 – WACC

WACC		11,16%
Risk Free Rate	3,28% α (specific risk)	2,50%
Market Premium	9,73% Beta Adjusted	1,0
D/E (average)	42,86% Beta Relevered	1,3
Ke	15,48% Kd	1,50%

Source: Integrae SIM

In particular:

- The Risk-Free Rate represented by Rendistato of December 2022 with maturity between 3 years and 7 months and 4 years and 6 months;
- The Market Premium coincides with the premium for the Italian market risk calculated by Professor A. Damodaran;
- D/E was calculated based on estimates made by Integrae SIM;
- Ke was calculated using CAPM;
- The Alfa, i.e., specific additional risk, is typical of equity investments in companies characterized by small-scale operations. As we are dealing with small sizes, the small-cap risk premium applied was equal to 2.5%, the average value of those suggested by the main studies carried out in this field (Massari Zanetti, 'Valutazione Finanziaria' (Financial Valuation'), McGraw-Hill, 2004, page 145, A. Damodaran, Cost of Equity and Small Cap Premium in Investment Valuation, Tools and Techniques for Determining the Value of Any Assets, III edition 2012, Guatri Bini, 'Nuovo Trattato sulla Valutazione delle Aziende' (New Insights on Corporate Valuation), 2009, page 236);
- The Beta was set equal to the market as the Beta was calculated based on competitors and was not statistically significant;
- Kd coincides with the Company's current debt cost.

These figures result in a WACC of 11.16%.

Table 6 – DCF Valuation

DCF Equity Value		53,3
FCFO actualized	11,9	22%
TV actualized DCF	41,7	78%
Enterprise Value	53,6	100%
NFP (FY21A)	0,3	

Source: Integrae SIM

With the above data and taking as a reference our estimates and assumptions, the result is an **equity value of € 53.3 million.**

Table 7 – Equity Value – Sensitivity Analysis

€/mln		WACC						
		9,7%	10,2%	10,7%	11,2%	11,7%	12,2%	12,7%
Growth Rate (g)	2,5%	75,8	70,0	65,0	60,6	56,7	53,2	50,2
	2,0%	71,6	66,4	61,9	57,9	54,4	51,2	48,4
	1,5%	67,9	63,3	59,1	55,5	52,3	49,3	46,7
	1,0%	64,7	60,4	56,7	53,3	50,3	47,7	45,2
	0,5%	61,8	57,9	54,5	51,4	48,6	46,1	43,8
	0,0%	59,2	55,6	52,5	49,6	47,0	44,7	42,6
	-0,5%	56,8	53,6	50,6	48,0	45,6	43,4	41,4

Source: Integrae SIM

7. Equity Value

Table 8 – Equity Value

Equity Value (€/mln)	
Equity Value DCF (€/mln)	53,3
Target Price (€)	1,70

Source: Integrae SIM

The result is an equity value equal to € 53.3 million. **The target price is therefore € 1.70, BUY rating and MEDIUM risk.**

Table 9 – Implied Sensitivity Analysis

Equity Value (€/mln)	EV/EBITDA			EV/EBIT			P/E		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
48,8	20,4x	14,2x	9,4x	21,3x	15,3x	9,9x	28,7x	20,3x	13,2x
50,3	21,1x	14,7x	9,7x	22,0x	15,8x	10,2x	29,6x	21,0x	13,6x
51,8	21,7x	15,1x	10,0x	22,6x	16,3x	10,5x	30,5x	21,6x	14,0x
53,3	22,3x	15,5x	10,3x	23,3x	16,7x	10,8x	31,4x	22,2x	14,4x
54,8	22,9x	16,0x	10,6x	23,9x	17,2x	11,1x	32,2x	22,8x	14,8x
56,3	23,6x	16,4x	10,9x	24,6x	17,7x	11,4x	33,1x	23,5x	15,2x
57,8	24,2x	16,8x	11,2x	25,2x	18,1x	11,7x	34,0x	24,1x	15,6x

Source: Integrae SIM

Disclosure Pursuant to Delegated Regulation UE n. 2016/958

Analyst/s certification

The analyst(s) which has/have produced the following analyses hereby certifies/certify that the opinions expressed herein reflect their own opinions, and that no direct and/or indirect remuneration has been, nor shall be received by the analyst(s) as a result of the above opinions or shall be correlated to the success of investment banking operations. Neither the analysts nor any of their relatives hold administration, management or advising roles for the Issuer. Mattia Petracca is Integrae SIM's current Head of Research. Giuseppe Riviello, Alessandro Colombo and Edoardo Luigi Pezzella are the current financial analysts.

Disclaimer

This publication was produced by INTEGRAE SIM SpA. INTEGRAE SIM SpA is licensed to provide investment services pursuant to Italian Legislative Decree n. 58/1998, released by Consob, with Resolution n. 17725 of March 29th 2011.

INTEGRAE SIM SpA performs the role of corporate broker for the financial instruments issued by the company covered in this report.

INTEGRAE SIM SpA is distributing this report in Italian and in English, starting from the date indicated on the document, to approximately 300 qualified institutional investors by post and/or via electronic media, and to non-qualified investors through the Borsa Italiana website and through the leading press agencies.

Unless otherwise indicated, the prices of the financial instruments shown in this report are the prices referring to the day prior to publication of the report. INTEGRAE SIM SpA will continue to cover this share on a continuing basis, according to a schedule which depends on the circumstances considered important (corporate events, changes in recommendations, etc.), or useful to its role as specialist.

The information and opinions contained herein are based on sources considered reliable. INTEGRAE SIM SpA also declares that it takes all reasonable steps to ensure the correctness of the sources considered reliable; however, INTEGRAE SIM SpA shall not be directly and/or indirectly held liable for the correctness or completeness of said sources.

The most commonly used sources are the periodic publications of the company (financial statements and consolidated financial statements, interim and quarterly reports, press releases and periodic presentations). INTEGRAE SIM SpA also makes use of instruments provided by several service companies (Bloomberg, Reuters, JCF), daily newspapers and press in general, both national and international. INTEGRAE SIM SpA generally submits a draft of the analysis to the Investor Relator Department of the company being analyzed, exclusively for the purpose of verifying the correctness of the information contained therein, not the correctness of the assessment. INTEGRAE SIM SpA has adopted internal procedures able to assure the independence of its financial analysts and that establish appropriate rules of conduct for them. Integrae SIM S.p.A. has formalized a set of principles and procedures for dealing with conflicts of interest. The Conflicts Management Policy is clearly explained in the relevant section of Integrae SIM's web site (www.integraesim.it). This document is provided for information purposes only. Therefore, it does not constitute a contractual proposal, offer and/or solicitation to purchase and/or sell financial instruments or, in general, solicitation of investment, nor does it constitute advice regarding financial instruments. INTEGRAE SIM SpA does not provide any guarantee that any of the forecasts and/or estimates contained herein will be reached. The information and/or opinions contained herein may change without any consequent obligation of INTEGRAE SIM SpA to communicate such changes. Therefore, neither INTEGRAE SIM SpA, nor its directors, employees or contractors, may be held liable (due to negligence or other causes) for damages deriving from the use of this document or the contents thereof. Thus, Integrae SIM does not guarantee any specific result as regards the information contained in the present publication, and accepts no responsibility or liability for the outcome of the transactions recommended therein or for the results produced by such transactions. Each and every investment/divestiture decision is the sole responsibility of the party receiving the advice and recommendations, who is free to decide whether or not to implement them. Therefore, Integrae SIM and/or the author of the present publication cannot in any way be held liable for any losses, damage or lower earnings that the party using the publication might suffer following execution of transactions on the basis of the information and/or recommendations contained therein.

This document is intended for distribution only to professional clients and qualified counterparties as defined in Consob Regulation no. 20307/2018, as subsequently amended and supplemented, either as a printed document and/or in electronic form.

Rating system (long term horizon: 12 months)

The BUY, HOLD and SELL ratings are based on the expected total return (ETR – absolute performance in the 12 months following the publication of the analysis, including the ordinary dividend paid by the company), and the risk associated to the share analyzed. The degree of risk is based on the liquidity and volatility of the share, and on the rating provided by the analyst and contained in the report. Due to daily fluctuations in share prices, the expected total return may temporarily fall outside the proposed range

Equity Total Return (ETR) for different risk categories			
Rating	Low Risk	Medium Risk	High Risk
BUY	ETR >= 7.5%	ETR >= 10%	ETR >= 15%
HOLD	-5% < ETR < 7.5%	-5% < ETR < 10%	0% < ETR < 15%
SELL	ETR <= -5%	ETR <= -5%	ETR <= 0%
U.R.	Rating e/o target price Under Review		
N.R.	Stock Not Rated		

Valuation methodologies (long term horizon: 12 months)

The methods that INTEGRÆ SIM SpA prefers to use for value the company under analysis are those which are generally used, such as the market multiples method which compares average multiples (P/E, EV/EBITDA, and other) of similar shares and/or sectors, and the traditional financial methods (RIM, DCF, DDM, EVA etc). For financial securities (banks and insurance companies) Integræ SIM SpA tends to use methods based on comparison of the ROE and the cost of capital (embedded value for insurance companies).

The estimates and opinions expressed in the publication may be subject to change without notice. Any copying and/or redistribution, in full or in part, directly or indirectly, of this document are prohibited, unless expressly authorized.

Conflict of interest

In order to disclose its possible interest conflict Integræ SIM states that:

- It operates or has operated in the past 12 months as the entity responsible for carrying out the activities of Euronext Growth Advisor of the Deodato.gallery S.p.A.;
- It plays, or has played in the last 12 months, role of specialist financial instruments issued by Deodato.gallery S.p.A.;
- In the IPO phase, It played the role of global coordinator.