

EQUITY RESEARCH

STAR7 FEEDBACK CONFERENCE

BUY
TP 12.9€
Up/Downside: 54%

Unstoppable Growth

Although 2022 revenue amounted to €83.3m, EBITDA was well above expectations at €15.5m thanks to the FY contribution of LocalEyes and organic growth. On 31 Dec'22, STAR7 signed the lease for the CAAR Group business unit, inaugurating a new period of growth.

At the time of the IPO, the company had set a target of €15m for 2022 EBITDA (vs. €8.3m in 2021), further committing to eliminate up to €11m of share value. The company not only met its target in December 2021, when the last published EBITDA was €4.4m, but it also managed to significantly exceed it, recording €15.5m (vs. €8.3 YoY).

Regarding growth expectations for 2023, the company, in addition to the small acquisition of Vertere (€0.8m spent to acquire around €0.2m of EBITDA) signed at the end of July 2022, also signed the lease CAAR group's year-end ("the branch"). The branch has been leased for one year at a cost of €0.12m and in conjunction with the submission of an irrevocable offer to purchase for €2.8m and a willingness to assume bank debt of up to €3.2m, for an estimated purchase cost of around €6m.

This transaction is particularly strategic for STAR7 for three different reasons: firstly for the low cost at which it was carried out due to the non-optimal financial situation of the counterparty. Secondly, for the strong potential for synergy between the two groups both in terms of customers and geographical presence. And finally, for the ultra-specialized and particularly rare personnel on the market that STAR7 would be able to acquire without having to spend massively on training and research (300 employees, mainly engineers).

The company was optimistic about the growth process and pointed out that the earnings composition was very diverse, both geographically (55.8% for Italy, 28.2% for the United States, 8.7% for Brazil and 7.3% YoY) and by business unit (46.3% for translation services, 35.9% for engineering services and 17.8% for printing services).

Despite the acquisitions, the company still has leeway to carry out mergers and acquisitions. STAR7 is currently looking for target companies to acquire that show strong synergy potential with the business divisions and that are generally based in Italy or the United States. We have integrated a slightly cautious correction concerning 2023 margin levels, by integrating higher personnel costs during the first phase of the CAAR integration. We are reiterating both our Buy rating and TP of €12.9.

Key data

Price (€)	8.4
Industry	Corporate Services
Ticker	STAR7-IT
Shares Out (m)	9.000
Market Cap (m €)	75.6

Ownership (%)

Dante Srl	39.2
Star Ag	31.4
Kairos Partners SGR SpA	6.1
Free float	23.3

EPS (€)	12/23e	12/24e	12/25e
Estimates	0.67	0.80	0.96
Change vs previous estimates (%)	-5.63	0.03	0.04

Performance (%)	1D	1M	YTD
Price Perf	-2.3	-4.5	-1.2
Rel FTSE Italy	-3.2	-4.5	-14.2



TP ICAP Midcap Estimates	12/22	12/23e	12/24e	12/25e	Valuation Ratio	12/23e	12/24e	12/25e
Sales (m €)	85.0	107.3	116.4	125.1	EV/Sales	1.0	0.8	0.7
Current Op Inc (m €)	7.8	9.5	11.0	12.7	EV/EBITDA	6.1	4.8	3.8
Current op. Margin (%)	9.2	8.9	9.4	10.2	EV/EBIT	11.2	8.9	6.7
EPS (€)	0.45	0.67	0.80	0.96	PE	12.6	10.5	8.7
DPS (€)	0.00	0.00	0.00	0.00				
Yield (%)	0.0	0.0	0.0	0.0				
FCF (m €)	-1.2	4.9	9.6	11.9				

Consensus FactSet - Analysts:2	12/23e	12/24e	12/25e
Sales	107.9	117.2	0.0
EBIT	12.3	15.4	0.0
Net income	5.7	7.8	0.0

Analyst
 Davide Longo
 davide.longo@tpicap.com



FINANCIAL DATA

Income Statement	12/20	12/21	12/22	12/23e	12/24e	12/25e
Sales	44.6	60.0	85.0	107.3	116.4	125.1
Changes (%)	-17.0	34.6	41.6	26.3	8.5	7.5
Gross profit	41.8	56.3	80.6	101.5	110.4	119.0
% of Sales	93.8	93.7	94.8	94.6	94.8	95.1
EBITDA	4.4	8.3	15.5	17.6	20.2	22.4
% of Sales	9.8	13.8	18.2	16.4	17.3	17.9
Current operating profit	2.7	4.1	7.8	9.5	11.0	12.7
% of Sales	6.0	6.8	9.2	8.9	9.4	10.2
Non-recurring items	0.2	0.1	0.1	0.1	0.2	0.2
EBIT	2.5	4.0	7.6	9.4	10.8	12.5
Net financial result	0.3	0.6	2.3	2.3	2.3	2.3
Income Tax	0.4	0.9	1.9	2.0	2.4	2.9
Tax rate (%)	21.0	26.4	36.2	27.9	27.9	27.9
Net profit, group share	1.5	2.2	3.4	5.1	6.1	7.4
EPS	na	0.29	0.45	0.67	0.80	0.96
Financial Statement	12/20	12/21	12/22	12/23e	12/24e	12/25e
Goodwill	4.8	35.5	32.0	34.2	29.3	24.8
Tangible and intangible assets	8.9	12.0	14.2	15.8	15.8	14.8
Right of Use	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets	0.5	0.3	0.8	0.8	0.8	0.8
Working capital	17.8	15.3	23.5	27.2	28.6	29.6
Other Assets	0.0	0.0	0.0	0.0	0.0	0.0
Assets	32.0	63.1	70.5	78.0	74.5	70.0
Shareholders equity group	10.3	24.6	29.6	34.7	40.8	48.2
Minorities	0.7	0.9	0.0	0.0	0.0	0.0
LT & ST provisions and others	4.7	5.7	5.8	7.1	7.1	7.1
Net debt	14.5	27.1	30.2	31.3	21.7	9.8
Other liabilities	1.8	4.9	4.9	4.9	4.9	4.9
Liabilities	32.0	63.1	70.5	78.0	74.5	70.0
Net debt excl. IFRS 16	14.5	27.1	30.2	31.3	21.7	9.8
Gearing net	1.3	1.1	1.0	0.9	0.5	0.2
Leverage	3.3	3.3	2.0	1.8	1.1	0.4
Cash flow statement	12/20	12/21	12/22	12/23e	12/24e	12/25e
CF after elimination of net borrowing costs and taxes	3.2	6.7	12.4	13.2	15.4	17.1
Δ WCR	2.2	2.2	-9.6	-3.7	-1.4	-1.1
Operating cash flow	5.5	8.9	2.8	9.5	14.0	16.0
Net capex	-5.2	-6.0	-4.0	-4.5	-4.4	-4.2
FCF	0.3	3.0	-1.2	4.9	9.6	11.9
Acquisitions/Disposals of subsidiaries	0.0	-31.6	-2.2	-6.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0	0.0
Change in borrowings	1.8	33.1	-1.8	3.2	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of leasing debt	0.0	0.0	0.0	0.0	0.0	0.0
Equity Transaction	0.0	11.8	0.0	0.0	0.0	0.0
Others	-0.2	0.0	0.1	0.0	0.0	0.0
Change in net cash over the year	1.8	16.5	-5.0	2.1	9.6	11.9
ROA (%)	5.3%	3.9%	4.8%	6.5%	8.2%	10.5%
ROE (%)	16.3%	10.0%	11.5%	14.7%	15.0%	15.3%

DISCLAIMER

Analyst certifications

This research report (the “Report”) has been approved by Midcap, a business division of TP ICAP (Europe) SA (“Midcap”), an Investment Services Provider authorised and regulated by the Autorité de Contrôle Prudentiel et de Résolution (“ACPR”). By issuing this Report, each Midcap analyst and associate whose name appears within this Report hereby certifies that (i) the recommendations and opinions expressed in the Report accurately reflect the research analyst’s and associate’s personal views about any and all of the subject securities or issuers discussed herein and (ii) no part of the research analyst's or associate’s compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst or associate in the Report.

Methodology

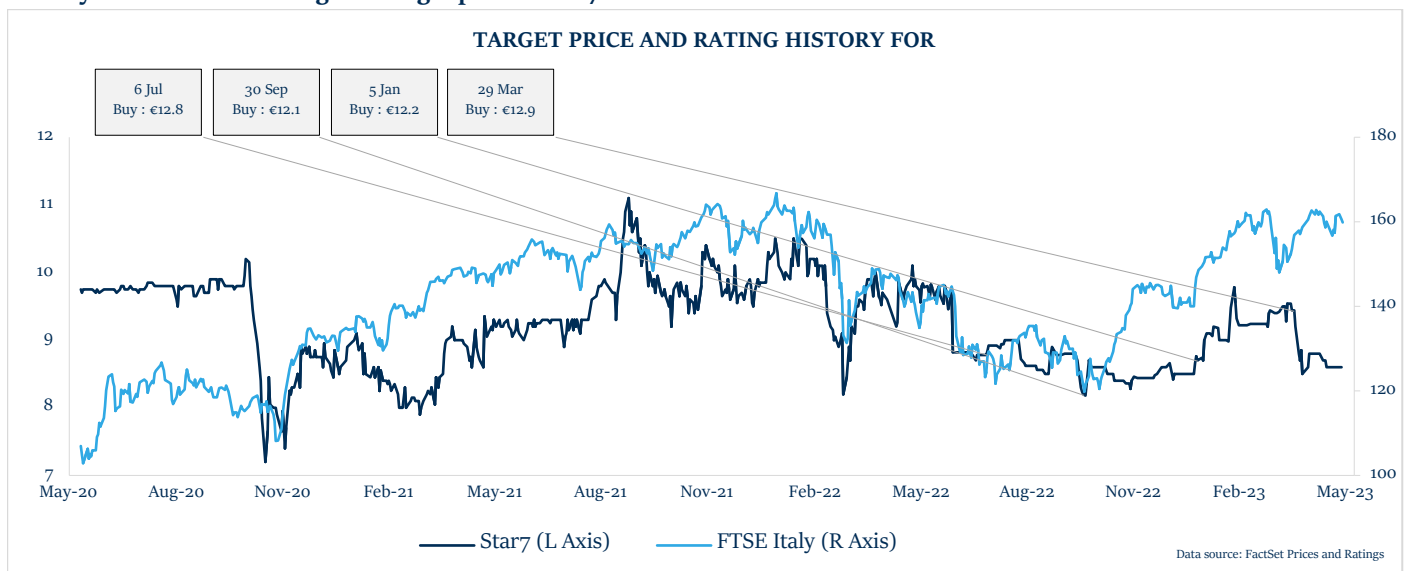
This Report may mention evaluation methods defined as follows:

1. DCF method: discounting of future cash flows generated by the company's operations. Cash flows are determined by the analyst's financial forecasts and models. The discount rate used corresponds to the weighted average cost of capital, which is defined as the weighted average cost of the company's debt and the theoretical cost of its equity as estimated by the analyst.
2. Comparable method: application of market valuation multiples or those observed in recent transactions. These multiples can be used as references and applied to the company's financial aggregates to deduce its valuation. The sample is selected by the analyst based on the characteristics of the company (size, growth, profitability, etc.). The analyst may also apply a premium/discount depending on his perception of the company's characteristics.
3. Assets and liabilities method: estimate of the value of equity capital based on revalued assets adjusted for the value of the debt.
4. Discounted dividend method: discounting of estimated future dividend flows. The discount rate used is generally the cost of capital.
5. Sum of the parts: this method consists of estimating the various activities of a company using the most appropriate valuation method for each of them, then realizing the sum of the parts.

Conflict of Interests between TP ICAP Midcap and the Issuer

G. Midcap and the Issuer have agreed to the provision by the former to the latter of a service for the production and distribution of the investment recommendation on the said Issuer: Star7

History of investment rating and target price – Star7



Distribution of Investment Ratings

Rating	Recommendation Universe*	Portion of these provided with investment banking services**
Buy	82%	65%
Hold	16%	42%
Sell	1%	0%
Under review	1%	0%

Midcap employs a rating system based on the following:

Buy: Expected to outperform the markets by 10% or more over a 6 to 12 months horizon.

Hold: expected performance between -10% and +10% compared to the market over a 6 to 12 months horizon.

Sell: Stock is expected underperform the markets by 10% or more over a 6 to 12 months horizon.

The history of ratings and target prices for the Issuers covered in this report are available on request at <https://researchtpicap.midcapp.com/en/disclaimer>.

General Disclaimer

This Report is confidential and is for the benefit and internal use of the selected recipients only. No part of it may be reproduced, distributed, or transmitted without the prior written consent of Midcap

This Report is published for information purposes only and does not constitute a solicitation or an offer to buy or sell any of the securities mentioned herein. The information contained in this Report has been obtained from sources believed to be reliable and public, Midcap makes no representation as to its accuracy or completeness. The reference prices used in this Report are closing prices of the day before the publication unless otherwise stated. All opinions expressed in this Report reflect our judgement at the date of the documents and are subject to change without notice. The securities discussed in this Report may not be suitable for all investors and are not intended to recommend specific securities, financial instruments, or strategies to particular clients. Investors should make their own investment decisions based on their financial situation and investment objectives. The value of the income from your investment may vary due to changes in interest rates, changes in the financial and operating conditions of companies and other factors. Investors should be aware that the market price of the securities discussed in this Report may be volatile. Due to the risk and volatility of the industry, the company, and the market in general, at the current price of the securities, our investment rating may not correspond to the stated price target. Additional information regarding the securities mentioned in this Report is available on request.

This Report is not intended for distribution or use by any entity who is a citizen or resident of, or an entity located in any locality, territory, state, country, or other jurisdiction where such distribution, publication, availability, or use would be contrary to or limited by law or regulation. Entity or entities in possession of this Report must inform themselves about and comply with any such restrictions, including MIFID II. This Report is only intended for persons who are Eligible Counterparties or Professional Clients within the meaning of MIFID II regulation. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. The Report is subject to restricted circulation. The research was conducted in accordance with the provisions of the Charter. Midcap has adopted effective administrative and organizational arrangements, including "information barriers", to prevent and avoid conflicts of interest regarding investment recommendations. The remuneration of financial analysts who participate in the preparation of the recommendation is not linked to the corporate finance activity.