

EQUITY RESEARCH

STAR7
RESULTS REVIEW
Press release

BUY
TP 12.0€
Up/Downside: 75%

Strong Growth in 2023

The 2023 budget comes to an end, with revenue up 25.4% and the EBITDA margin improving in H2: 15.3% (vs. 14.7% in H1).

Star7 released its FY 2023 results on Thursday, landing slightly below our expectations regarding margin and net debt. 2023 was a period of major change for STAR7, which had to consolidate the customer base of the engineering division acquired from CAAR, work on streamlining costs and organisational structure (post integration), and finally support organic growth.

Revenue rose by 25.4% to €104.4m, in line with the figures announced at the beginning of February. EBITDA fell by 5.4% to €14.6m (vs. €15.5m YoY) due to the costs of integrating CAAR. Without extraordinary items, adjusted EBITDA would have amounted to €16m. This level of margins, combined with the additional cost reduction completed in Q1 2024, has led us to call for an EBITDA margin of 15.8% for 2024.

Net income fell to €5.8m YoY (vs. €7.1m YoY). Finally, net debt increased to €37.7m YoY (vs. €35.1m YoY and an expectation of €33.5m), the difference being due to higher-than-expected capex investments of €2.6m and temporarily unfavourable working capital dynamics. The company also disclosed its net debt at the end of February, down sharply to €31.5m, giving a net debt to adjusted EBITDA ratio of around 2x, a moderate figure indeed.

STAR7 enters 2024 with two major projects (thanks to the work completed in 2023), which will generate at least an additional €9m and facilitate the growth expected in 2024. Accordingly, we have upgraded our growth expectations for the coming years. At the same time, we have prudently reduced our EBITDA margin expectations for 2024, 2025 and 2026 to 15.8%, 16.5% and 17% (vs. 16.3%, 17.9% and 18.6% previously).

Finally, the company presented a clear vision for the development of solutions based on artificial intelligence to meet the needs of its customers. STRA7 is in an ideal position in terms of the availability of technical information and technological capabilities to support the training of artificial intelligence tools for various purposes (including staff training or after-sales services). For this reason, we have increased our investment estimates for the next few years, which has reduced our short-term cash generation estimates, but gives us a more solid view of expected technological developments. Our current more cautious estimates have led us to reduce our target price on STAR7 to €12, while maintaining a strong Buy rating and 75% upside potential.

TP ICAP Midcap Estimates	12/23	12/24e	12/25e	12/26e	Valuation Ratio	12/24e	12/25e	12/26e
Sales (m €)	105.6	118.7	128.1	135.9	EV/Sales	0.8	0.8	0.7
Current Op Inc (m €)	10.0	12.8	14.2	14.8	EV/EBITDA	5.2	4.6	4.1
Current op. Margin (%)	9.5	10.8	11.1	10.9	EV/EBIT	7.6	6.9	6.4
EPS (€)	0.76	1.01	1.13	1.19	PE	6.8	6.1	5.8
DPS (€)	0.00	0.00	0.00	0.00	Source: TPICAP Midcap			
Yield (%)	0.0	0.0	0.0	0.0				
FCF (m €)	-2.7	2.0	0.1	3.4				

Key data

Price (€)	6.9
Industry	Corporate Services
Ticker	STAR7-IT
Shares Out (m)	9.000
Market Cap (m €)	61.6

Source: FactSet

Ownership (%)

Dante Srl	41.7
Star Ag	33.4
Kairos Partners SGR SpA	6.1
Free float	18.8

Source: TPICAP Midcap estimates

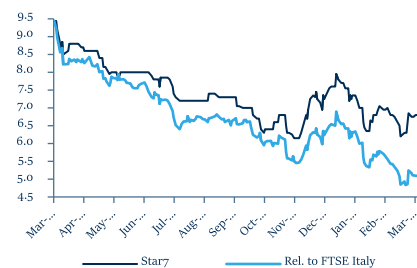
EPS (€)

	12/24e	12/25e	12/26e
Estimates	1.01	1.13	1.19
Change vs previous estimates (%)	0.00	0.00	0.00

Source: TPICAP Midcap estimates

Performance (%)

	1D	1M	YTD
Price Perf	1.5	0.7	-9.9
Rel FTSE Italy	1.5	-5.8	-21.9



Source: FactSet

Consensus FactSet - Analysts:2	12/24e	12/25e	12/26e
Sales	115.4	124.1	132.0
EBIT	12.9	15.3	16.5
Net income	8.0	9.5	10.3

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FINANCIAL DATA

Income Statement	12/21	12/22	12/23	12/24e	12/25e	12/26e
Sales	60.0	85.0	105.6	118.7	128.1	135.9
Changes (%)	34.6	41.6	24.3	12.4	7.9	6.1
Gross profit	56.3	79.8	99.6	112.5	121.8	129.6
% of Sales	93.7	93.9	94.3	94.8	95.1	95.4
EBITDA	8.3	15.5	14.6	18.8	21.1	23.1
% of Sales	13.8	18.3	13.8	15.8	16.5	17.0
Current operating profit	5.2	11.8	10.0	12.8	14.2	14.8
% of Sales	8.6	13.9	9.5	10.8	11.1	10.9
Non-recurring items	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
EBIT	5.1	11.6	10.0	12.8	14.1	14.7
Net financial result	-0.6	-2.3	-3.0	-2.9	-2.8	-2.7
Income Tax	-0.9	-1.9	-1.2	-2.2	-2.7	-3.0
Tax rate (%)	19.8	20.8	16.8	22.3	23.9	24.6
Net profit, group share	3.3	7.1	5.8	7.7	8.6	9.1
EPS	0.43	0.92	0.76	1.01	1.13	1.19
Financial Statement	12/21	12/22	12/23	12/24e	12/25e	12/26e
Goodwill	35.5	33.6	30.0	25.2	20.7	16.5
Tangible and intangible assets	12.0	12.5	17.4	19.1	21.1	23.5
Right of Use	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets	0.3	0.8	0.3	0.3	0.3	0.3
Working capital	15.3	24.9	31.0	36.2	43.7	47.7
Other Assets	0.0	0.0	0.0	0.0	0.0	0.0
Assets	63.1	71.8	78.7	80.8	85.8	87.9
Shareholders equity group	24.6	28.3	30.5	34.6	39.7	45.2
Minorities	0.9	1.2	1.3	1.3	1.3	1.3
LT & ST provisions and others	5.7	7.2	9.0	9.0	9.0	9.0
Net debt	31.9	35.1	37.8	35.8	35.7	32.3
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	63.1	71.8	78.7	80.8	85.8	87.9
Net debt excl. IFRS 16	31.9	35.1	37.8	35.8	35.7	32.3
Gearing net	1.3	1.2	1.2	1.0	0.9	0.7
Leverage	3.9	2.3	2.6	1.9	1.7	1.4
Cash flow statement	12/21	12/22	12/23	12/24e	12/25e	12/26e
CF after elimination of net borrowing costs and taxes	7.7	12.4	12.3	13.6	15.6	17.4
Δ WCR	2.2	-9.6	-5.7	-5.2	-7.4	-4.0
Operating cash flow	9.9	2.8	6.6	8.4	8.2	13.4
Net capex	-6.1	-4.2	-9.3	-6.5	-8.0	-10.0
FCF	3.8	-1.4	-2.7	2.0	0.1	3.4
Acquisitions/Disposals of subsidiaries	-31.6	-2.2	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0	0.0
Change in borrowings	33.1	-1.8	-6.5	-5.2	-2.8	-2.8
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	11.8	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.1	0.0	0.0	0.0	0.0
Change in net cash over the year	17.4	-5.2	-9.1	-3.3	-2.7	0.5
ROA (%)	5.7%	10.3%	7.4%	9.5%	10.1%	10.3%
ROE (%)	14.6%	26.2%	19.1%	22.2%	21.8%	20.1%

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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	79%	63%
Hold	18%	61%
Sell	1%	0%
Under review	1%	100%

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>.

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