

EQUITY RESEARCH

STAR7
RESULTS REVIEW

BUY

TP 12.4€ (vs 12.2€)
Up/Downside: 100%

Cash generation higher than expected!

STAR7 published its 1H 2024 report, highlighting an 18.7% growth in revenues to €60.4m (vs €50.9m YoY), an adjusted EBITDA of €9.2m (vs €7.5m YoY), a net result of €1.5m (vs €1m YoY), and a significant reduction in net debt to €29.8m (vs €37.8m at the end of December 2023).

STAR7 published its 1H 2024 report on Friday, highlighting an 18.7% growth in revenues (above the previously announced 18%). The growth was driven by the Product Knowledge and Experience divisions (+40% YoY) and Engineering (+32% YoY), clearly showcasing the company's increasing technical and engineering capabilities. The Global Content division follows with a revenue growth of 13%, remaining the main division in terms of revenue contribution, while the less strategic Printing division closes with revenues down approximately -20% YoY. Following this result, which was better than our expectations, we have revised our projected revenue growth for the end of the year upward to 16.8% (vs 15% YoY).

Regarding the company's EBITDA, the figure is slightly below our expectations (€8.6m vs €8.9m expected), due to significantly rising personnel costs (+22.5% YoY). This figure clearly highlights the company's confidence in future growth, but it has led us to cautiously revise the year-end EBITDA to €18.7m (vs €19m), despite a year-end revenue that is €1.8m higher than previous expectations.

Net debt as of June 30, 2024, stands at €29.8m (vs €37.8m on December 31, 2023, and much better than our expectation of €30.9m). This result confirms the effectiveness of the strategies implemented by management to improve working capital management. Following the optimization of the company's cash generation, despite the €5m cash outflow we anticipate by the end of October due to the auction for the acquisition of the CAAR business unit, we estimate that the company could finish the year with net debt of €34.7m (vs €35.8m previously).

Despite a more cautious P&L in terms of EBITDA margin and net result in the short term, the expected improvement in cash generation and market parameters (risk-free rates and comparable multiples) leads us to a price target of €12.4 for STAR7 (vs €12.2 previously). We believe that the core engineering and significant cash generation capacity of the company are not yet valued by the market.

Key data

| | |
|------------------|--------------------|
| Price (€) | 6.2 |
| Industry | Corporate Services |
| Ticker | STAR7-IT |
| Shares Out (m) | 9.000 |
| Market Cap (m €) | 55.8 |

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

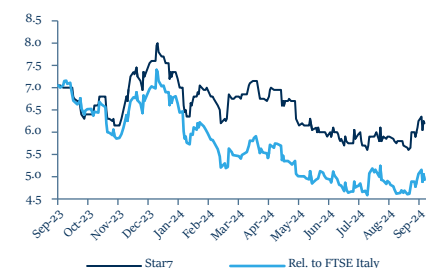
EPS (€)

| | 12/24e | 12/25e | 12/26e |
|----------------------------------|--------|--------|--------|
| Estimates | 0.87 | 1.03 | 1.19 |
| Change vs previous estimates (%) | -16.18 | -11.91 | -8.49 |

Source: TPICAP Midcap estimates

Performance (%)

| | 1D | 1M | YTD |
|----------------|------|-----|-------|
| Price Perf | 0.0 | 6.9 | -18.4 |
| Rel FTSE Italy | -0.7 | 3.8 | -30.3 |



Source: FactSet

| TP ICAP Midcap Estimates | 12/23 | 12/24e | 12/25e | 12/26e | Valuation Ratio | 12/24e | 12/25e | 12/26e |
|--------------------------|-------|--------|--------|--------|-----------------------|--------|--------|--------|
| Sales (m €) | 105.6 | 123.3 | 130.9 | 138.5 | EV/Sales | 0.7 | 0.6 | 0.5 |
| Current Op Inc (m €) | 10.0 | 13.3 | 15.3 | 17.2 | EV/EBITDA | 4.9 | 4.0 | 3.3 |
| Current op. Margin (%) | 9.5 | 10.8 | 11.7 | 12.4 | EV/EBIT | 6.8 | 5.5 | 4.4 |
| EPS (€) | 0.71 | 0.87 | 1.03 | 1.19 | PE | 7.1 | 6.0 | 5.2 |
| DPS (€) | 0.00 | 0.00 | 0.00 | 0.00 | Source: TPICAP Midcap | | | |
| Yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | | | | |
| FCF (m €) | -3.2 | 8.3 | 6.6 | 8.0 | | | | |

| Consensus FactSet - Analysts:2 | 12/24e | 12/25e | 12/26e |
|--------------------------------|--------|--------|--------|
| Sales | 121.5 | 129.3 | 137.3 |
| EBIT | 13.3 | 14.9 | 16.3 |
| Net income | 7.9 | 9.0 | 10.0 |

Analyst

Davide Longo
davide.longo@tpicap.com
+33173030977



FINANCIAL DATA

| Income Statement | 12/21 | 12/22 | 12/23 | 12/24e | 12/25e | 12/26e |
|---|--------------|--------------|--------------|---------------|---------------|---------------|
| Sales | 60.0 | 85.0 | 105.6 | 123.3 | 130.9 | 138.5 |
| Changes (%) | 34.6 | 41.6 | 24.3 | 16.8 | 6.1 | 5.9 |
| Gross profit | 56.3 | 79.8 | 99.9 | 118.3 | 125.9 | 133.5 |
| % of Sales | 93.7 | 93.9 | 94.6 | 95.9 | 96.2 | 96.4 |
| EBITDA | 8.3 | 15.5 | 14.6 | 18.7 | 21.0 | 23.1 |
| % of Sales | 13.8 | 18.3 | 13.8 | 15.1 | 16.1 | 16.7 |
| Current operating profit | 5.2 | 11.8 | 10.0 | 13.3 | 15.3 | 17.2 |
| % of Sales | 8.6 | 13.9 | 9.5 | 10.8 | 11.7 | 12.4 |
| Non-recurring items | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 |
| EBIT | 5.1 | 11.6 | 10.0 | 13.3 | 15.3 | 17.1 |
| Net financial result | -0.6 | -2.3 | -3.0 | -3.1 | -3.0 | -2.8 |
| Income Tax | -0.9 | -1.9 | -1.2 | -2.5 | -3.2 | -3.9 |
| Tax rate (%) | 19.8 | 20.8 | 16.8 | 24.2 | 26.0 | 27.3 |
| Net profit, group share | 3.3 | 7.1 | 5.4 | 6.6 | 7.9 | 9.1 |
| EPS | 0.43 | 0.92 | 0.71 | 0.87 | 1.03 | 1.19 |
| Financial Statement | 12/21 | 12/22 | 12/23 | 12/24e | 12/25e | 12/26e |
| Goodwill | 35.5 | 33.6 | 29.7 | 30.2 | 25.9 | 22.1 |
| Tangible and intangible assets | 12.0 | 12.5 | 17.7 | 18.4 | 19.0 | 19.6 |
| Right of Use | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial assets | 0.3 | 0.8 | 0.6 | 0.6 | 0.6 | 0.6 |
| Working capital | 15.3 | 24.9 | 31.2 | 31.3 | 34.2 | 36.8 |
| Other Assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Assets | 63.1 | 71.8 | 79.2 | 80.5 | 79.8 | 79.0 |
| Shareholders equity group | 24.6 | 28.3 | 29.6 | 33.1 | 37.9 | 43.8 |
| Minorities | 0.9 | 1.2 | 2.3 | 3.4 | 4.5 | 5.8 |
| LT & ST provisions and others | 5.7 | 7.2 | 9.3 | 9.3 | 9.3 | 9.3 |
| Net debt | 31.9 | 35.1 | 38.0 | 34.7 | 28.1 | 20.1 |
| Other liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Liabilities | 63.1 | 71.8 | 79.2 | 80.5 | 79.8 | 79.0 |
| Net debt excl. IFRS 16 | 31.9 | 35.1 | 38.0 | 34.7 | 28.1 | 20.1 |
| Gearing net | 1.3 | 1.2 | 1.2 | 1.0 | 0.7 | 0.4 |
| Leverage | 3.9 | 2.3 | 2.6 | 1.9 | 1.3 | 0.9 |
| 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 | 12.5 | 13.1 | 14.8 | 16.3 |
| Δ WCR | 2.2 | -9.6 | -6.0 | -0.1 | -2.9 | -2.6 |
| Operating cash flow | 9.9 | 2.8 | 6.5 | 13.0 | 11.8 | 13.7 |
| Net capex | -6.1 | -4.2 | -9.7 | -4.7 | -5.2 | -5.8 |
| FCF | 3.8 | -1.4 | -3.2 | 8.3 | 6.6 | 8.0 |
| Acquisitions/Disposals of subsidiaries | -31.6 | -2.2 | 0.0 | -5.0 | 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 | -6.3 | -4.8 | -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 | -9.5 | -1.5 | 3.8 | 5.1 |
| ROA (%) | 5.7% | 10.3% | 7.3% | 9.6% | 11.4% | 13.1% |
| ROE (%) | 14.6% | 26.2% | 19.7% | 23.4% | 24.0% | 23.7% |

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:

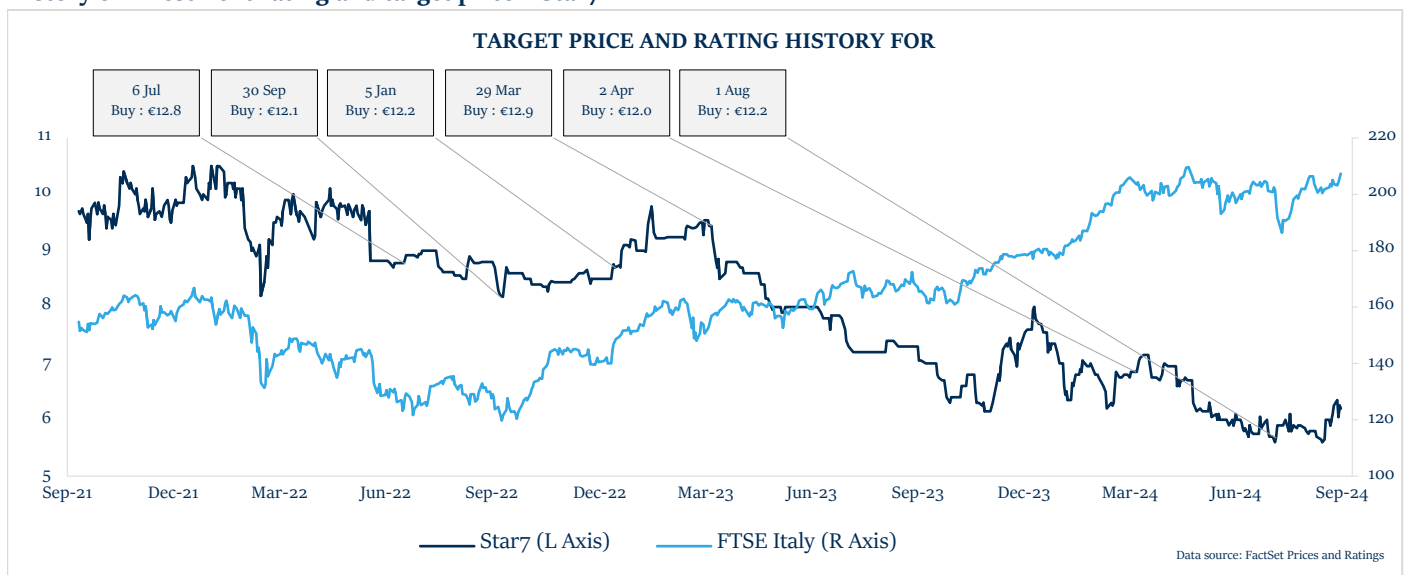
1. DCF method: discounting of future cash flows generated by the company's operations. Cash flows are determined by the analyst's financial forecasts and models. The discount rate used corresponds to the weighted average cost of capital, which is defined as the weighted average cost of the company's 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

K. Midcap, according to article 3, paragraph 1, numbers (34) and (35) Regulation (EU) No 596/2014, has been commissioned to produce Equity Research for the Company by arrangement with the Specialist engaged by the Company: 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 | 80% | 66% |
| Hold | 17% | 64% |
| Sell | 2% | 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>.

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 of good practices for sponsored research. 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.