

## EQUITY RESEARCH

### STAR7 RESULTS REVIEW Press release

**BUY**  
**TP 12.9€**  
Up/Downside: 77%

## H1 Cash Generation

Star7 has published its 1H 2023 results, showing revenue of €50.9m (in line with our expectations), EBITDA of €6.9m and a margin of 13.9% (vs 7.2m and 18.2% YoY) down on our expectations, and net debt down due to better than expected cash generation.

A better-than-expected half-year in terms of cash generation, thanks to excellent efficiency in working capital management. While revenues rose by only 28.3% YoY, the difference between trade receivables and payables contracted to an excellent €21.4m (compared with €23.5m in December).

The strong growth in sales was due partly to the acquisition of CAAR (+17.6%) and partly to organic growth (+10.6%). The company has also indicated that it has already signed contracts for around €8m of additional sales in 2024, covering almost all of our organic growth forecasts for 2024, which is an excellent indicator. Thanks to the acquisition of CAAR, the breakdown of sales is now much more balanced between the company's five BUs, with the Engineering division at 18.4% (vs 2.5% YoY), the Global Content division at 35.9% (vs 46.3% YoY), the Printing division at 16.7% (vs 17.8% YoY) and finally the Product Knowledge and Experience division at 29% (vs 33.4% YoY). In terms of the geographical breakdown of sales, Italy and Brazil grew at the expense of the United States.

EBITDA fell to €6.9m (vs €7.2m YoY) with adjusted EBITDA excluding extraordinary costs and taking into account synergies between CAAR and STAR7 of €7.5m, for an adjusted EBITDA margin of around 14.7% (vs 18.2% YoY). This fall in margin was caused partly by the impact of inflation on material costs, partly by an increase in salaries, and finally by the costs of integrating CAAR. The company has set itself the target for 2024 of returning to the 18% EBITDA margin reported in 2022, which we believe is ambitious but achievable.

Finally, not only has the NET DEBT/EBITDA multiple fallen to 2.2x (vs. 2.3x at the end of 2022), but the company has also announced that it is at an advanced stage of negotiations to acquire an Italian company that will contribute to the continued growth of the Product Knowledge and Engineering divisions. Closing is expected between the fourth quarter of 2023 and the first quarter of 2024.

We have increased our service and personnel costs for 2023 and slightly increased our estimates of capex from 2023 on. We believe STAR7 can exceed our revenue expectations from 2024, but for the time being we have not changed our growth guidance, TP confirmed at €12.9.

### Key data

Price (€)	7.3
Industry	Corporate Services
Ticker	STAR7-IT
Shares Out (m)	9.000
Market Cap (m €)	65.7

### Ownership (%)

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

### EPS (€)

	12/23e	12/24e	12/25e
Estimates	0.50	0.81	0.96
Change vs previous estimates (%)	0.00	0.00	0.00

### Performance (%)

	1D	1M	YTD
Price Perf	0.0	1.4	-14.1
Rel FTSE Italy	0.8	0.5	-28.0



TP ICAP Midcap Estimates	12/22	12/23e	12/24e	12/25e	Valuation Ratio	12/23e	12/24e	12/25e
Sales (m €)	85.0	107.2	116.3	125.0	EV/Sales	0.9	0.7	0.6
Current Op Inc (m €)	7.8	7.7	11.0	12.7	EV/EBITDA	5.8	4.1	3.1
Current op. Margin (%)	9.2	7.2	9.5	10.2	EV/EBIT	12.1	7.6	5.7
EPS (€)	0.45	0.50	0.81	0.96	PE	14.7	9.0	7.6
DPS (€)	0.00	0.00	0.00	0.00				
Yield (%)	0.0	0.0	0.0	0.0				
FCF (m €)	-1.2	2.8	9.3	11.8				

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

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## FINANCIAL DATA

<b>Income Statement</b>	<b>12/20</b>	<b>12/21</b>	<b>12/22</b>	<b>12/23e</b>	<b>12/24e</b>	<b>12/25e</b>
Sales	44.6	60.0	85.0	107.2	116.3	125.0
Changes (%)	-17.0	34.6	41.6	26.1	8.5	7.5
Gross profit	41.8	56.3	80.6	101.4	110.3	118.9
% of Sales	93.8	93.7	94.8	94.6	94.8	95.1
<b>EBITDA</b>	<b>4.4</b>	<b>8.3</b>	<b>15.5</b>	<b>16.1</b>	<b>20.8</b>	<b>23.1</b>
% of Sales	9.8	13.8	18.2	15.0	17.9	18.5
<b>Current operating profit</b>	<b>2.7</b>	<b>4.1</b>	<b>7.8</b>	<b>7.7</b>	<b>11.0</b>	<b>12.7</b>
% of Sales	6.0	6.8	9.2	7.2	9.5	10.2
Non-recurring items	-0.2	-0.1	-0.1	-0.1	-0.2	-0.2
EBIT	2.5	4.0	7.6	7.6	10.9	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	-1.5	-2.4	-2.9
Tax rate (%)	21.0	26.4	36.2	27.9	27.9	27.9
<b>Net profit, group share</b>	<b>1.5</b>	<b>2.2</b>	<b>3.4</b>	<b>3.8</b>	<b>6.2</b>	<b>7.4</b>
EPS	na	0.29	0.45	0.50	0.81	0.96
<b>Financial Statement</b>	<b>12/20</b>	<b>12/21</b>	<b>12/22</b>	<b>12/23e</b>	<b>12/24e</b>	<b>12/25e</b>
Goodwill	4.8	35.5	32.0	27.1	22.2	17.7
Tangible and intangible assets	8.9	12.0	14.2	17.2	17.6	16.7
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	26.7	28.0	29.1
Other Assets	0.0	0.0	0.0	0.0	0.0	0.0
<b>Assets</b>	<b>32.0</b>	<b>63.1</b>	<b>70.5</b>	<b>71.7</b>	<b>68.6</b>	<b>64.2</b>
Shareholders equity group	10.3	24.6	29.6	33.4	39.5	46.9
Minorities	0.7	0.9	0.0	0.0	0.0	0.0
LT & ST provisions and others	4.7	5.7	5.8	5.8	5.8	5.8
Net debt	14.5	27.1	30.2	27.7	18.4	6.6
Other liabilities	1.8	4.9	4.9	4.9	4.9	4.9
<b>Liabilities</b>	<b>32.0</b>	<b>63.1</b>	<b>70.5</b>	<b>71.7</b>	<b>68.6</b>	<b>64.2</b>
Net debt excl. IFRS 16	14.5	27.1	30.2	27.7	18.4	6.6
Gearing net	1.3	1.1	1.0	0.8	0.5	0.1
Leverage	3.3	3.3	2.0	1.7	0.9	0.3
<b>Cash flow statement</b>	<b>12/20</b>	<b>12/21</b>	<b>12/22</b>	<b>12/23e</b>	<b>12/24e</b>	<b>12/25e</b>
CF after elimination of net borrowing costs and taxes	3.2	6.7	12.4	12.2	15.9	17.8
$\Delta$ WCR	2.2	2.2	-9.6	-3.2	-1.3	-1.0
Operating cash flow	5.5	8.9	2.8	9.0	14.6	16.7
Net capex	-5.2	-6.0	-4.0	-6.2	-5.3	-4.9
FCF	0.3	3.0	-1.2	2.8	9.3	11.8
Acquisitions/Disposals of subsidiaries	0.0	-31.6	-2.2	-0.2	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	0.0	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	2.6	9.3	11.8
ROA (%)	5.3%	3.9%	4.8%	5.3%	9.0%	11.5%
ROE (%)	16.3%	10.0%	11.5%	11.4%	15.6%	15.7%

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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.
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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



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Rating	Recommendation Universe*	Portion of these provided with investment banking services**
Buy	80%	66%
Hold	16%	44%
Sell	3%	25%
Under review	1%	100%

Midcap employs a rating system based on the following:

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