Milan, 27 January 2025

Italian Equity Research – FY24 Prelim. Revenues

CY4GATE

BUY

Sector: Industrials

Price: Eu4.28 - **Target: Eu6.10**

Preliminary Revenues Increase YoY but at Lower Pace

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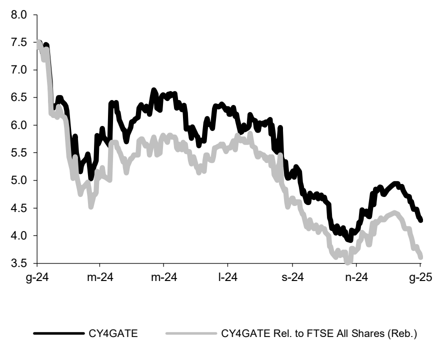
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			from 7.00 to 6.10
	2024E	**2025E**	**2026E**
Chg in Adj EPS	n.m.	n.m.	-79.3%

Next Event

FY24 Results Out On March 12th

CY4GATE - 12M Performance



Stock Data			
Reuters code:			CY4.MI
Bloomberg code:			CY4 IM
Performance	**1M**	**3M**	**12M**
Absolute	-11.5%	-8.9%	-42.3%
Relative	-18.4%	-13.2%	-60.6%
12M (H/L)			7.50/3.92
3M Average Volume (th):			62.98

Shareholder Data	
No. of Ord shares (mn):	24
Total no. of shares (mn):	24
Mkt Cap Ord (Eu mn):	101
Total Mkt Cap (Eu mn):	101
Mkt Float - Ord (Eu mn):	39
Mkt Float (in %):	38.3%
Main Shareholder:	
Elettronica S.p.A.	38.4%

Balance Sheet Data	
Book Value (Eu mn):	85
BVPS (Eu):	3.60
P/BV:	1.2
Net Financial Position (Eu mn):	-34
Enterprise Value (Eu mn):	128

- **Preliminary revenues below company guidance.** CY4 just announced preliminary revenues at ~€75mn (€68mn on FY23, +10% YoY), or +3% organic assuming that XTN contributed around €5mn. This implies 4Q23 revenue at ~€28mn (vs. €23mn in 4Q23, which means organic growth at ~12%). However, preliminary revenue came in below the lower end of the guidance range set at €84mn, reflecting an 11% shortfall. This was primarily due to lower-than-expected conversion of the pipeline in 4Q (around €5mn vs. € 13-15mn previously expected). These contracts are in the Forensic Intelligence segment, particularly with foreign clients, on which management remains confident of a gradual recovery through the year.
- **Order intake and backlog up YoY.** Order intake for FY24 reached €84mn, reflecting a 15% YoY increase (€73mn in 2023), resulting in the creation of backlog of ~€36mn (+40% compared to 2023). The most recent contracts awarded, with a total value of ~€8.5mn and a duration of 2 years, mainly relate to Italian tech clients for the acquisition of technologies and projects in the Cyber Security field.
- **Change in estimates.** For FY24, we are aligning our revenue estimate with the just-announced preliminary data; at EBITDA level, we have carried out a more significant review, factoring in the high margin resulting from non-conversion of the commercial pipeline, and assuming increasing QoQ OpEx, in line with the historical path. On cash flow, we are incorporating lower cash earnings, with adj. net debt now seen at ~€23mn (from ~€18mn), expecting an improvement in WC in 4Q, as indicated by management during the 3Q results call. We expect financial leverage at 1.9x, below covenants set at 2x adj. net debt/EBITDA.
- **Investment case.** Preliminary FY24 revenues were below expectations, but the adverse news flow should have been already partially factored into the share price (down -13.5% YtD), and linked to the absence of significant orders announced in Nov/Dec, as implied in the annual guidance reiterated by Cy4 after 3Q results. However, as previously, some orders may face delays due to the contractual framework, which often requires additional time for negotiation and finalization. Forensic business abroad is still underperforming, but we do not rule out the possibility of securing some orders in 1H25, which should benefit from an easier comparison base. On a positive note, CY4 has shown strong reliability in the domestic lawful interception market, with revenues likely continuing to grow double-digit, despite concerns over potential budget cuts. Looking ahead, we believe the defence sector may be a key driver of future growth, with emerging multi-year opportunities, particularly in the Cyber Security space. In line with prior management guidance, we anticipate this segment contributing around €10mn in revenue for FY24, bolstering recurring revenue streams and helping to reduce seasonality (currently, 80% of the business still relies on institutional clients, with 4Q accounting for roughly 38% of total revenues). At this stage, we believe that the delivery of upcoming milestones is critical to boosting investor confidence in the stock and triggering a re-rating. Based on new estimates and rolling over our valuation to FY25E, we lower our target price to €6.1 (from €7.0), still applying a 9x EV/EBITDA multiple, which suggests >40% upside to the current stock price. BUY rating unchanged.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	57	68	75	85	94
EBITDA Adj (Eu mn)	17	12	12	19	23
Net Profit Adj (Eu mn)	7	-5	-8	-3	1
EPS New Adj (Eu)	0.314	-0.228	-0.340	-0.117	0.051
EPS Old Adj (Eu)	0.314	-0.228	0.025	0.166	0.246
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	13.6	17.4	12.8	6.8	5.6
EV/EBIT Adj	32.9	nm	nm	nm	20.8
P/E Adj	13.6	nm	nm	nm	84.0
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	-0.2	1.1	2.5	1.8	1.5

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- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

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Frequency of research: quarterly.
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A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.
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BUY: stock expected to outperform the market by over 25% over a 12 month period;
OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;
NEUTRAL: stock performance expected at between +10% and – 10% compared to the market over a 12 month period;
UNDERPERFORM: stock expected to underperform the market by between –10% and -25% over a 12 month period;
SELL: stock expected to underperform the market by over 25% over a 12 month period.
Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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BUY:	31.34 %
OUTPERFORM:	43.28 %
NEUTRAL:	25.38 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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OUTPERFORM:	29.58 %
NEUTRAL:	19.72 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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