Milan, 12 February 2025

Italian Equity Research – FY24 Prelim. Revenues

STAR7

BUY

Sector: Industrials

Price: Eu6.05 - **Target: Eu10.50**

Quality revenue growth paves the way for improving margins

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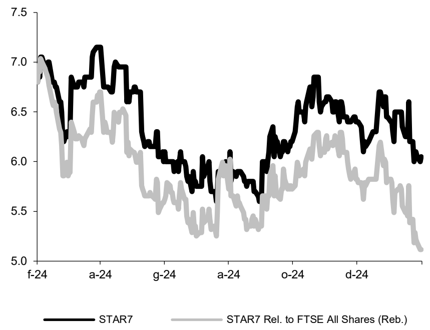
Stock Rating			
Rating:			Unchanged
Target Price (Eu):			Unchanged
	2024E	**2025E**	**2026E**
Chg in Adj EPS	0.5%	0.1%	0.5%

Next Event

FY24 Results Out March 25th

STAR7 - 12M Performance



Stock Data			
Reuters code:			STAR7.MI
Bloomberg code:			STAR7 IM
Performance	**1M**	**3M**	**12M**
Absolute	-6.2%	-8.3%	-11.0%
Relative	-13.2%	-17.5%	-30.8%
12M (H/L)			7.15/5.60
3M Average Volume (th):			2.10

Shareholder Data	
No. of Ord shares (mn):	9
Total no. of shares (mn):	9
Mkt Cap Ord (Eu mn):	54
Total Mkt Cap (Eu mn):	54
Mkt Float - Ord (Eu mn):	14
Mkt Float (in %):	24.9%
Main Shareholder:	
Dante Srl	41.7%

Balance Sheet Data	
Book Value (Eu mn):	39
BVPS (Eu):	4.36
P/BV:	1.4
Net Financial Position (Eu mn):	-31
Enterprise Value (Eu mn):	85

STAR7's FY24 preliminary revenue confirms the company's ability to acquire new customers through cross-selling and progressively increase their added value through upselling. We believe that the ~30% YoY growth in the US and Brazil, along with growth in Experience/Product Knowledge and Engineering areas, will boost expansion of STAR7's profitability. The announcement of the official acquisition of CAAR was a mere formality considering that STAR7 has managed CAAR since 2023. The rationalization is complete with no further integration costs expected, while we believe that the deal strengthens STAR7's positioning in the auto, aerospace, electronics and defence sectors, also paving the way for new opportunities, especially in Brazil, which we consider a strategic and growing market for product engineering.

- **FY24 preliminary revenues: on track to improving profitability.** Preliminary FY24 revenues were up 15% YoY to ~Eu120mn (+Eu16mn vs FY23) and in line with our estimates. At constant FX, revenues would have been ~Eu122mn (+17% YoY). The growth was entirely organic and driven by the highest margin geographies (US and Brazil) and business lines (Product Knowledge and Engineering).
- **FY24 expected results.** FY24 results are expected to confirm positive indications released with preliminaries. We expect significant cash generation and improving profitability, with the adj. EBITDA margin at 15.5%. Adj. net profit is estimated at €7.4mn, while net debt is expected to have markedly improved to €30.5mn vs €37.8mn as at YE23. Including as pro-forma the cash-out related to the CAAR acquisition finalized in January 2025, we estimate an adjusted NFP of €35.9mn.
- **CAAR acquisition "officially" completed.** STAR7 has finalized the CAAR acquisition, formalizing the integration begun in 2023 via a leasing agreement. The €5.8mn cash-out was as expected, and no CAAR debt was taken on. The leasing agreements facilitated integration of the business unit during the restructuring of CAAR. The rationalization process is now complete, with no further integration costs expected. CAAR's contribution to STAR7 is expected to grow in the next years, especially in Brazil and Italy.
- **Change in estimates.** The quality of growth seen in preliminary revenues, driven by higher-value business lines, combined with successful integration of CAAR and positive management commentary on cash generation, leads us to confirm our estimates. Minor revenue adjustments are offset by cost reductions, resulting in a slightly higher FY24 adjusted EBITDA margin estimate of 15.5%, with further margin expansion expected in 2025/26. Net profit estimates confirmed.
- **BUY confirmed, TP confirmed at €10.5.** We believe that STAR7 preliminary FY24 revenue figures pave the way for further improvements in profitability. We expect the full release on March 25th to confirm that path. The CAAR acquisition is complete and we see, for the next years, several growth opportunities for STAR7 businesses, particularly in India, through cross-selling, and in Italy by leveraging on generative AI solutions developed. We also consider the Brazilian market as very attractive, especially the automotive industry. We confirm our positive view on the stock with a TP of €10.5 resulting from the simple average of a DCF and a peer valuation. At our TP, STAR7 would be trading at 6.2x/5.1x 2025/26 EV/EBITDA, offering upside of ~70% vs the current price.

Key Figures & Ratios	2022A	2023A	2024E	2025E	2026E
Sales (Eu mn)	85	106	121	130	139
EBITDA Adj (Eu mn)	15	16	19	20	23
Net Profit Adj (Eu mn)	7	7	7	8	10
EPS New Adj (Eu)	0.699	0.644	0.824	0.927	1.146
EPS Old Adj (Eu)	0.699	0.644	0.819	0.926	1.140
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
EV/EBITDA Adj	7.4	6.8	4.7	4.2	3.4
EV/EBIT Adj	9.8	9.5	6.7	6.1	4.8
P/E Adj	8.7	9.4	7.3	6.5	5.3
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt/EBITDA Adj	2.3	2.4	1.6	1.5	1.1

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- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- 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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BUY:	50.70 %
OUTPERFORM:	29.58 %
NEUTRAL:	19.72 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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Emittente	%	Long/Short

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