

Eles: “Zero Defects”

December, 16th 2019 at 19:00

Eles: Semiconductor Testing Solutions for reliability and safety (zero defect target)

Eles Semiconductor Equipment S.p.A. (“Eles”) was founded in 1988 by Antonio Zaffarami as a company specialized in the production and distribution of test solutions for semiconductors. Since its inception, Eles collaborates with major semiconductor players including STMicroelectronics, to design and develop tests solutions for their specific semiconductor test. The Group is controlled by Zaffarami family with a 59% stake. The remaining voting rights are held by the market (41%).

AI, Autonomous Driving and vehicle electrification as main growth drivers

The Semiconductor Industry is strongly influenced by the end markets application trends, especially mission and safety critical businesses: automotive, aerospace, defence, medical devices. Semiconductors are also instrumental to the development and acceleration of the Artificial Intelligence (AI) opportunity and thus a key factor in boosting innovation and growth.

RETE: Eles’ new approach to semiconductor testing

In order to detect early and intermittent failures, and move towards a zero-defect semiconductors production process (below 0.1ppm), Eles has developed the so-called RETE (Reliability Embedded Test Engineering) solution, which entails a co-engineering process with clients in order to increase test coverage and reliability, with significant advantages in terms of time and cost savings.

34% revenue CAGR in 2016-2018 period

In 2018, the Group Value of Production (VoP) grew by 54% yoy to €23.3mln. Semiconductors represent the majority of sales with an average weight of 82% over the 2016-2018 period, while the rest is made by ECU (Electronic Central Unit) and I&D (Industrial and Defence).

Strategic development and our 2019E-2022E estimates

Corporate strategy includes: i) new products and markets development through local temperature control and system level test in order to reach zero defect target lower than 10ppb; ii) new geographies through strategic partnership (XCET in China) and M&A opportunities (US and Asia); iii) current client consolidation and new strategic customer acquisition. In our estimates, we project a 15% revenue CAGR (2018-2022E) to reach €39mln. In 2022E we estimate EBITDA at €9.8mln (25% margin from 17% in 2018), €3.7mln Net income and a Net cash of €6.1mln. Cumulated operating FCF in 2019E-2022E are seen at €18.8mln, only partially invested in Capex and operating NWC needs.

Financials: 1H19 results on track to our estimates

1H19 figures show a slowdown of Group sales mainly due to unexpected negative macro events in Semiconductor and ECU markets: i) trade war between US and China; ii) dieselgate. Sales stood at €10mln (-15.4% yoy). Despite the slowdown in the Automotive European market and the profit warnings announced by semiconductor manufacturers, Eles reached Budget results. This has been allowed by the fact that in the positive phases of the economic cycle of its customers Eles increases the sale of test systems, while in the negative phases it increases the sale of specific services and products to support the testing activities. In fact, during negative cycles semiconductor companies tend to reduce their investments in functional activities for mass production, but they increase the functional investments in research and development.

Valuation: DCF and market multiples lead to a TP of €6.45/share

In order to perform Eles valuation we adopted both DCF and relative multiple methods. Through cumulated FCF 2019E-2022E of €5.8mln and a TV of €76mln we get to an EV of €80mln and an

Target Price (€) **6.45**

Recommendation **BUY**

Price as of December 16th 5.34

Number of shares (mln) 11.157

Market capitalization (€mln) 59.6

Market segment FTSE AIM ITALIA

Performance **from IPO**

Absolute +181%

Max / Min 6.0/1.9

Average daily volumes (*000) 91.2

(€mln)	2018	2019E	2020E	2021E
Revenue	22.2	17.2	22.1	30.1
yoy change	56.6%	-22.2%	28.2%	36.3%
EBITDA	3.8	3.0	4.3	6.7
margin	17.0%	17.3%	19.5%	22.1%
EBIT	1.5	1.2	1.8	3.5
margin	6.6%	7.1%	7.9%	11.6%
Net income	0.8	0.5	1.0	2.1
margin	3.4%	2.9%	4.3%	6.9%
NIC	11.4	13.2	11.4	14.9
Net debt	4.9	1.0	1.3	(0.4)
Equity	6.5	12.2	13.2	15.2
FCF	2.2	(0.9)	(0.2)	1.8

Source: Banca Profilo estimates and elaborations, Company data.

Equity Value of €79mln. This finally led us to a valuation of €7.1/share. Our relative valuation based on the average 2020E EV/EBITDA multiple (15.4x), led to an Equity Value of €65mln and to €5.83/share. We set our TP at €6.45/share, implying a potential upside higher than 21% on Eles’ closing price (as of 16th December 2019). Our recommendation is BUY.

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Executive summary

Eles in a nutshell: key investment drivers

Eles: a leading Italian player in semiconductor testing industry

Eles Semiconductor Equipment S.p.A. ("Eles") is a National integrated group active as a specialized company in the production and distribution of test solutions for semiconductors. Since its inception, Eles collaborates with major semiconductor players such as STMicroelectronics by realizing specific tests on its semiconductors.

Founded in 1988

Eles was founded in 1988 by Antonio Zaffarami (ELES' current Chairman and main shareholder).

An international presence

Eles operates worldwide through 2 international subsidiaries, one in California (US) and one in Singapore. Furthermore, the Group is present in Israel through a minority stake (7.3%) in ATS, an important testing laboratory on behalf of third parties.

Zaffarami's Family at 59%

The Group is controlled by its founder Antonio Zaffarami (Chairman), which owns a 34.2% stake of the Company, followed by his daughter Francesca Zaffarami (CEO) with a 14.1% stake and Carla Franceschin with a 10.4% stake. The remaining voting rights are held by the market (41%).

Macrotrends are leading the industry:

Semiconductors and ICs

Worldwide semiconductor market value is expected to drop by a 13% yoy in 2019E mainly due to the continuing uncertainty above US-China trade war. Despite this, the market is seen increasing on average, in particular in 2020E is expected at +5% yoy. In terms of product category, Integrated Circuits represents the biggest portion with almost a \$350bn market value in 2020E. IC is also the main market on which Eles focused its operations since inception. More in detail, with Eles solutions it's possible to test SoC (system on a chip), MEMs (Micro Electro Mechanical Systems) and Memories.

Autonomous driving and ECU

In 2030, 35% and 15% of cars are estimated to build in conditional automation and high respectively. The introduction of new technological features such as innovative sensors, mapping application, connectivity platforms will increase the demand for automotive semiconductors and provide a major long-term growth engine. The Automotive Electronic Control Unit (ECU) and Domain Control Unit (DCU) Market was valued \$42bn in 2016 and is projected to reach \$129bn by 2025 and \$156bn by 2030.

Testing is fundamental especially for mission critical businesses

Semiconductor market is strongly influenced by the end markets application trends, especially mission and safety critical businesses: automotive, aerospace, defence, medical devices. Semiconductors are also instrumental to the development and acceleration of the Artificial Intelligence (AI) opportunity and thus a key factor in boosting innovation in the field and AI's potential growth.

RETE approach in order to reach zero-defect semiconductor production process

In order to detect early and intermittent failures, and move towards a zero-defect semiconductors production process (below 0.1ppm), Eles has developed the so-called RETE (Reliability Embedded Test Engineering) solution. RETE entails a co-engineering process with clients in order to increase test coverage and reliability, with important advantages in terms of time and cost savings.

Main Financial data (2017-2018) and estimates (2019E-2022E)

Strong revenue growth Eles revenues increased by 34% on average in 2016-2018 period.

2018 financials:
€22.2mIn revenue with
17% EBITDA margin

In 2018, Eles reported €22.2mIn revenues, €3.8mIn of EBITDA with margin at 17% and €0.8mIn of Net income. It showed a leveraged financial structure with €4.9mIn of Net debt and €6.5mIn of Equity. The NWC on sales ratio stood at 20% at the end of 2018, trade receivables accounted for €5.9mIn.

High growth
perspectives driven by
several initiatives

Main corporate strategy consist of the following guidelines:

- New products and markets development: i) RETE test approach towards zero defects (from 1ppm to 0.1ppm); ii) local temperature control to be developed in 2020 in order to reach zero defect target lower than 10ppb; iii) system level test during burn-in to be developed in 2020 in order to reach zero defect target lower than 10ppb; iv) RETE reliability test approach for ECU (Electronic Control Unit) for automotive in order to reach zero defect target lower than 10ppb.
- New geographies entry through strategic partnership. Thanks to XCET Electronic (private company with established relationships with hi-tech laboratories in China) commercial agreement, Eles is going to enter the Chinese market. XCET represents an opportunity for Eles to penetrate Chinese market through the wide portfolio of XCET customers especially in the area of device qualification.
- Current client consolidation and new strategic customer acquisition, especially in automotive ECU testing market.
- External growth through M&A acquisitions in US and Asia. M&A negotiations have started with three US companies in Semiconductors Burn-In Test market, whose client portfolio is complementary to Eles' one. Ultimate project objective is STAR-Nasdaq dual listing. Operation would consist of 51%-60% immediate acquisition followed by 40%-49% dual listing contribution.

Our estimates
2019E-2022E

In our estimates, we project a 15% revenue CAGR (2018-2022E) for the Group to reach €39mIn. In 2022E we estimate EBITDA of €9.8mIn (25% margin), €3.8mIn Net income and a Net cash of about €6.1mIn. Cumulated operating FCF in 2019E-2022E is seen at €18.8mIn, partially invested in Capex and operating NWC needs.

Valuation

DCF approach to
appraise a fast growing
business model

Given a strong growth of Sales and EBITDA which traduce into a strong average growth of FCF, we believe that a DCF well appraise as valuation method.

Furthermore, we have selected a sample of listed players active in the industry of ATE and Burn-In tests.

Multiple valuation on
ATE and Burn-In
market

Within this sector we selected: Aehr Test Systems (USA), Advantest (JP), Chroma ATE (Taiwan), Cohu (USA), Teradyne (USA).
On average, consensus expects growth of 3.6% in 2019E and 15.7% in 2020E, with EBITDA margin respectively at 20.7% and 23.4%.

DCF assumptions

We run a DCF model, using our projections of FCF for the explicit 2019E-2022E period, which lead to cumulated FCFs of €5.8mIn (an annual average of €1.5mIn) plus a Terminal Value of €76mIn. We used a WACC of 7.1% and a perpetual growth rate of 2%.

DCF Valuation

The DCF method leads us to an Enterprise Value of €80mln and an Equity Value of €79mln or €7.1/share, as of a Net debt at 2019E.

Relative Valuation

Our relative valuation based on listed comparable companies similar to Eles developed on average 2020E EV/EBITDA multiple (15.4x) led to an Equity Value of €65mln and therefore to €5.83/share.

TP and recommendation

We then set our TP at €6.45/share as an average of the DCF and relative valuations, implying a potential upside of >21% on closing price (as of 16th December 2019), therefore our recommendation is BUY.

*Key risks**Our estimates execution risks*

On track to 2019E figures:

- 1H19 figures show a slowdown of Group sales mainly due to unexpected negative macro events in Semiconductor and ECU markets: i) trade war between US and China; ii) dieselgate. Sales stood at €10mln (-15.4% yoy). Despite the slowdown in the Automotive European market and the profit warnings announced by semiconductor manufacturers, Eles has managed to achieve the results expected from Budget. This has been allowed by the fact that in the positive phases of the economic cycle of its customers Eles increases the sale of test systems, while in the negative phases it increases the sale of specific services and products to support the testing activities. In fact, during negative cycles semiconductor companies tend to reduce their investments in functional activities for mass production, but they increase the functional investments in research and development;
- thanks to Eles flexible cost structure and efficiencies, EBITDA margin increased to 17.1% from 15.3% in 1H18;
- at the end of June, Net debt stood at €0.6mln from €4.9mln at the end of 2018, mainly due to IPO proceeds available as cash.

Key risks:

- potential political market risks coming from a longer than expected trade war;
- high growth rates can lead to cost management issues and challenge the Net Working Capital control;
- rising competition.

On the other side, any agreement on US-China or US-Europe tariffs will reinforce market expectations on a rebound in Semiconductors.

SWOT analysis

STRENGTHS	WEAKNESSES
• High innovation capability (RETE Approach) • Sophisticated IP Libraries (Entry barriers) • Zero Defect Reliability as a requirement • Highly educated personnel • Flexible cost structure	• High customer concentration • Geographic presence not yet sufficient • Level of managerialization can be enhanced • Commercial structure to be reinforced
OPPORTUNITY	THREATS
• Automotive and Semiconductor macrotrend (Requirement Zero Defect) • M&A opportunities in US and Asia • New materials and technologies for semiconductors (need for reliability test) • Scalable & replicable offer	• Geopolitical factors such as trade war • Sector consolidation • Resistance to innovation from semiconductor companies • Alternative products

The reference market: the semiconductor testing market

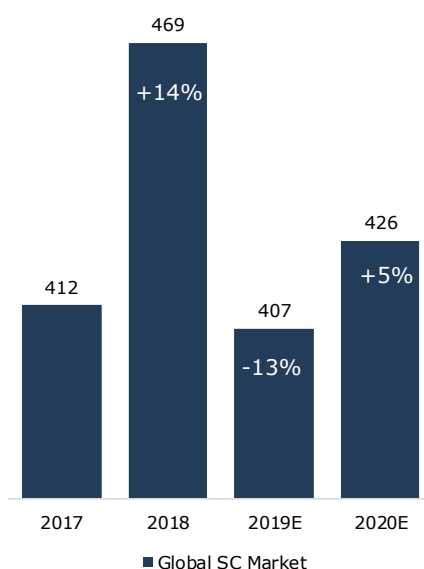
Eles: Microelectronics Testing

The Company is an innovative SME active in the industry of Microelectronics Testing, mainly of semiconductors, for the most relevant industries i.e. automotive, industrial, consumer electronics, and defence.

The Semiconductor industry: \$400bn in 2019E

The Semiconductor Test Equipment market, in which the Group operates, is strongly related to the developments of the Semiconductor market and is also influenced by the end markets application trends, especially mission and safety critical businesses: automotive, aerospace, defence, medical devices. Since semiconductors are essentials for tech innovations, the future of semiconductors will be the catalyst for the next industrial revolution. Therefore, the Semiconductor market has been growing on average. According to the WSTS (Worldwide Semiconductor Market Forecast), its value will increase from over \$400bn in 2019E to over \$1,000bn in 2030E.

Figure 1: Worldwide semiconductor market value 2017-2020E (\$/bn)

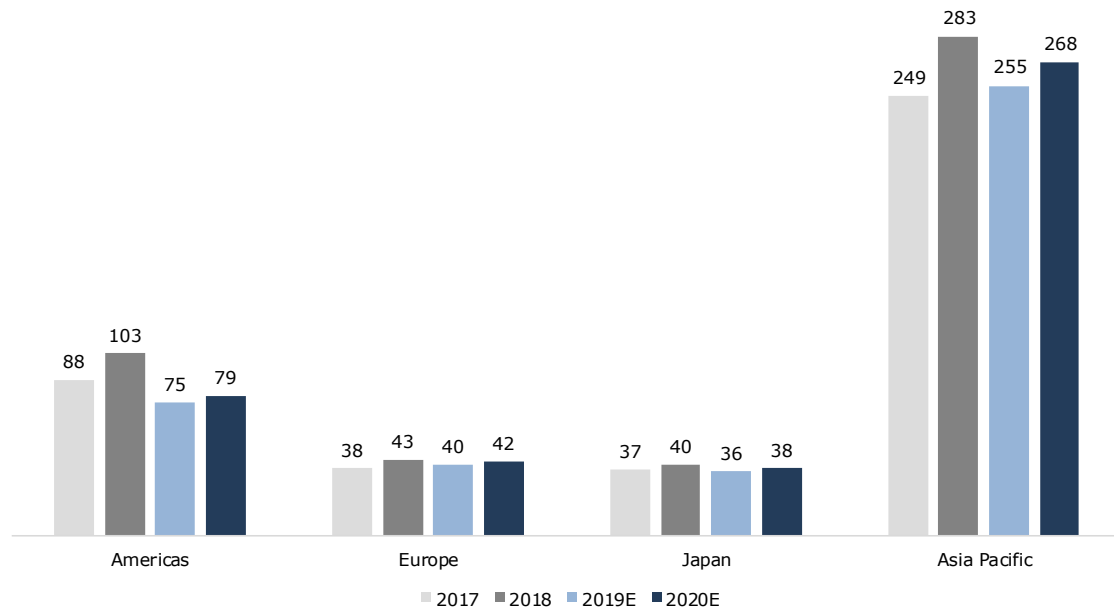


Source: Worldwide Semiconductor Market (WSTS) Forecast; Spring 2019

Worldwide Semiconductor market growing at +5% in 2020E

The worldwide semiconductor market is expected to drop by 13% yoy in 2019E mainly due to the continuing uncertainty on US-China trade war. The Market is seen rebounding in 2020E (+5% yoy).

Figure 2: Worldwide semiconductor market value by geographical area 2017-2020E (\$/bn)

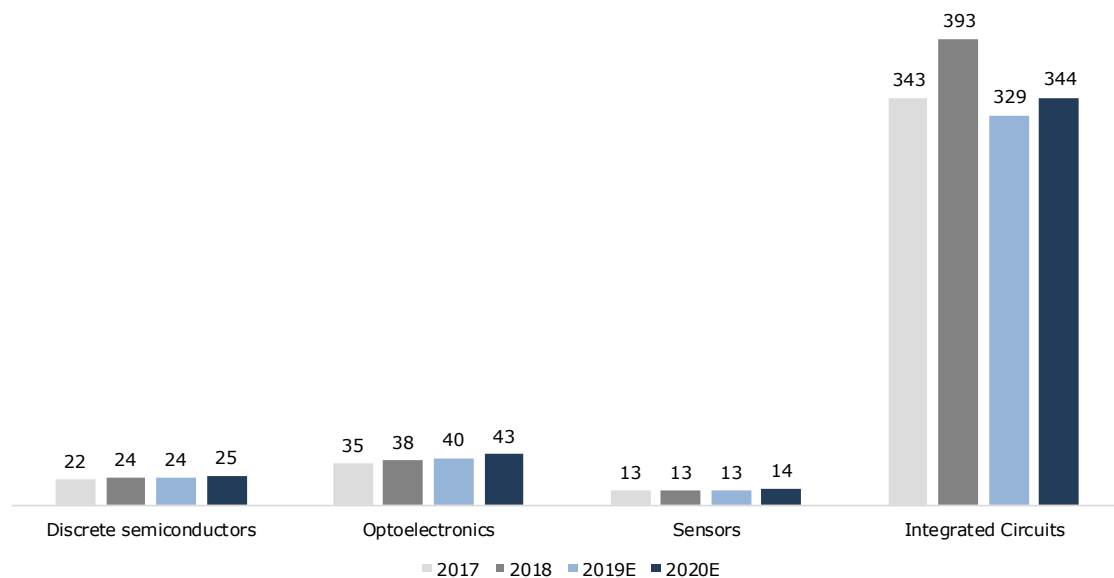


Source: WSTS Worldwide Semiconductor Market Forecast; Spring 2019

Major market is Asia Pacific

Asia Pacific is the largest area of the industry worth almost \$300bn in 2020E, followed by Americans with about \$80bn.

Figure 3: Worldwide semiconductor market value by product category 2017-2020E (\$/bn)



Source: WSTS Worldwide Semiconductor Market Forecast; Spring 2019

Integrated Circuits make it all at \$350bn in 2020E

In terms of product category, Integrated Circuits represents the biggest portion with almost \$350bn market value in 2020E. IC is also the main market on which Eles focused its operations since inception. More in details, Eles offers solutions for testing Systems on a Chip (SoC), Micro Electro Mechanical Systems (MEMs) and Memories.

Artificial Intelligence: the driver of the Semiconductor industry for the coming decade

+50% expected CAGR in 2022

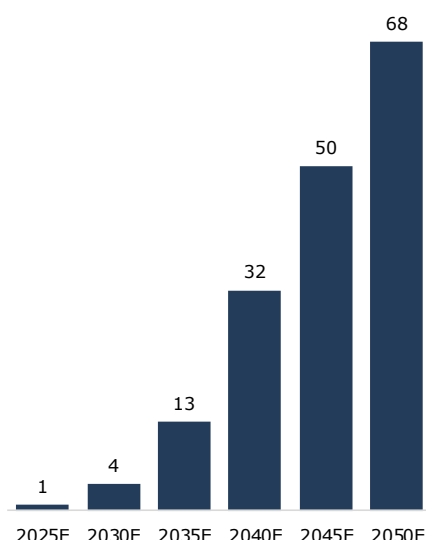
Semiconductors are instrumental to the development, growth acceleration and innovation in Artificial Intelligence (AI). AI creates an unprecedented opportunity for semiconductor vendors due to: i) its applicability across virtually every industry; ii) the strong forecast for the sheer number of chips needed both in the cloud and at the edge; iii) the growing need for specialized computing requirements to accelerate new algorithms. The market for AI-related semiconductors is expected to reach \$30bn by 2022, with a CAGR of almost 50%.

The Automotive industry spends heavily on electronic components and is advancing quickly in terms of how it uses AI for further innovation. AI's impact will be most felt in infotainment, advanced driver-assistance systems (ADAS) and safety by 2022.

Autonomous driving, vehicle electrification, increased connectivity and shared mobility are the 4 macro trend driving the automotive industry

In 2030, 35% and 15% of cars are estimated to build in conditional automation and high respectively. Vehicle electrification could reach 5% to 10% of car sales by 2020, and 35%-50% by 2030. Connectivity solutions revenues for OEMs could rise from about \$30bn to >\$60bn by 2020. Ride-sharing services could account for 10% of vehicle purchases by 2030 (source: McKinsey Analysis).

Figure 4: Global sales of autonomous vehicles (2025E-2050E)



Source: LMC Automotive Research

Increasing technological features in cars will push the demand for semiconductors

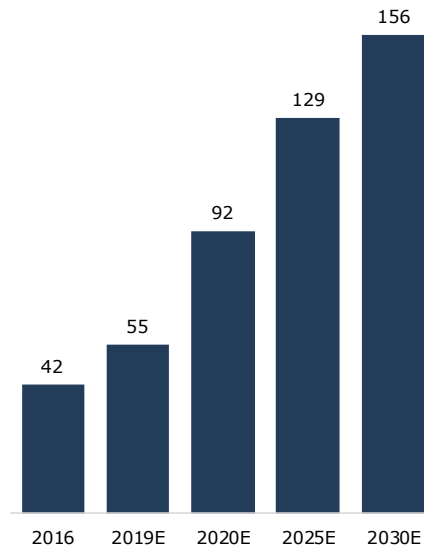
The introduction of new technological features such as innovative sensors, mapping application, connectivity platforms will increase the demand for automotive semiconductors and provide a major long-term growth engine.

Level 4 cars (highly autonomous vehicles according to SAE International categorization) are not expected to hit the road until sometime between 2020 and 2025. According to McKinsey, by 2020 35% of cars will build in conditional automation (level 3) and 15% will have high automation (level 4).

Global Automotive Electronic Central Units market to reach \$129bn by 2025E

The Automotive Electronic Control Unit (ECU) and Domain Control Unit (DCU) Market was valued \$42bn in 2016 and is projected to reach \$129bn by 2025 and \$156bn by 2030.

Figure 5: Automotive ECU/DCUs market value (\$/bn)



Source: McKinsey

Safety as the crucial target for automotive semiconductor devices testing

The reliability of semiconductor devices has gradually become critical for the manufacturers in the automotive industry, mostly concerning safety:

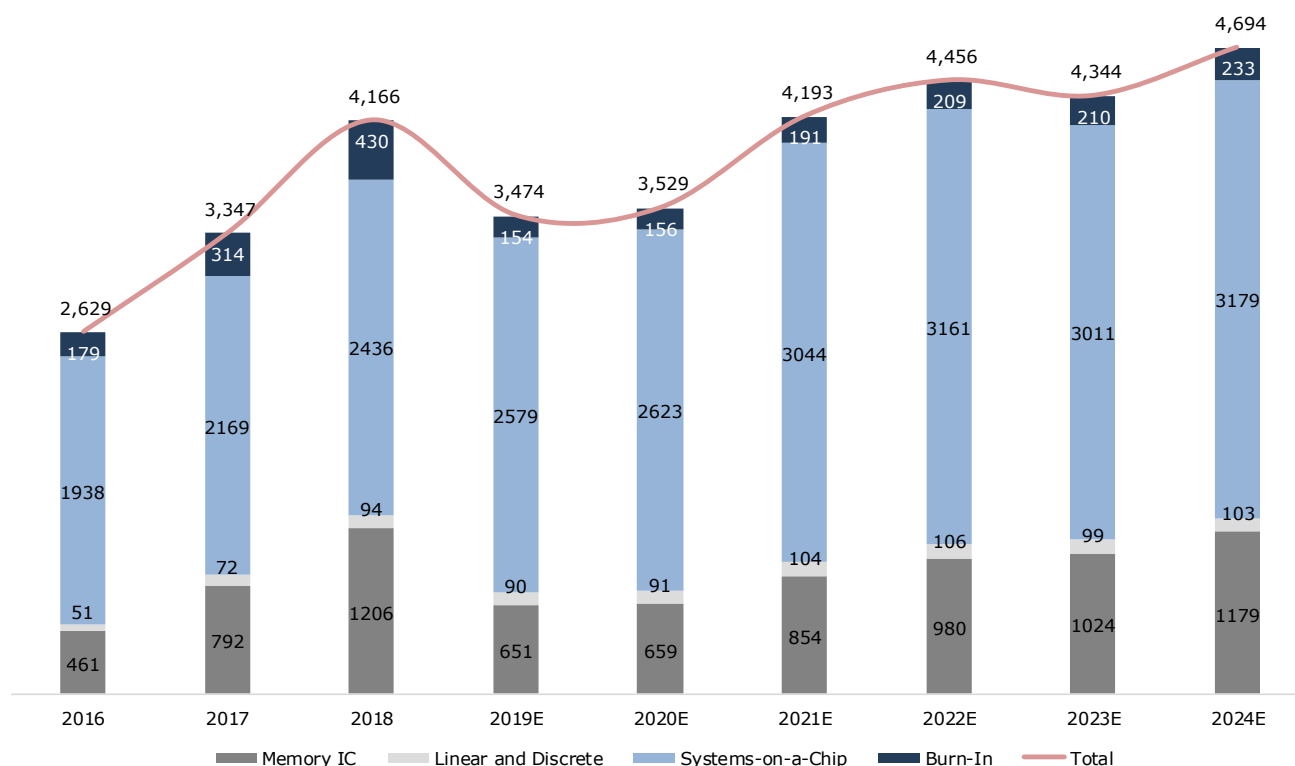
- any damage or failure in the auto-components could lead to significant reputational damages;
- the test must be carried out with a high degree of parallelism as it simulates 20 years of product's life;
- product complexity requires continuous adjustments in the paradigms of the tests.

Global ICs ATE market growth seen at 7.4% in 2020-2022 period

The traditional semiconductor testing market is divided into two main types of players:

- Automated Test Equipment (ATE) market players: verification of operation and compliance with the specifications. Complex and high cost tester necessary when the testability is not designed in the design phase of the device. This market is worth about \$3.7bn and it's projected to grow at 6.7% in 2019-2022 (CAGR);
- Burn-in Test market players: these are reliability tests aimed at screening infant mortality, process and project qualification. This market is worth about \$400mln, decentralized and locally managed, with an expected CAGR 2019-2022 of 3.5%.

Figure 6: Global ICs ATE market growth rate (\$mln)



Source: Technavio "Global ATE Market"; VLSI analysis

Eles competitive arena

Eles' comparable: ATE and Burn-In markets

In order to define Eles' competitive environment we carried out an in-depth analysis of listed companies active in the ATE and Burn-In tests market.

Companies are consolidating towards Burn-In tests

Given the increasing market request for higher semiconductors performance and reliability, ATE companies are moving towards the Burn-In/System Level Test market through several M&A deals.

In February 2019, for example, Advantest acquired Test Systems, a provider of system level tests for semiconductor components and modules, from Astronics Corporation for \$100mln, plus an earn out patent of up to \$35mln based on certain performance milestones. Test System is highly complementary to Advantest's existing product portfolio of automated test equipment (ATE) solutions by broadening its position into system level test services.

5 comparable companies

We selected a sample of 5 companies in order to analyse Eles' competitive scenario:

Aehr Test Systems (USA): Burn-In test manufacturing

Aehr Test Systems, headquartered in Fremont (USA) and listed on Nasdaq, engages in the design, manufacture, and marketing of test and Burn-In products to the semiconductor manufacturing industry. Its products include wafer contact test systems, test during Burn-In systems, test fixtures and die carriers. In FY19 the company registered revenues for \$21.1mln.

Advantest (JP): ATE test manufacturing

Advantest, headquartered in Tokyo (JP) and listed on Tokyo stock exchange, is a leading producer of automatic test equipment (ATE) for the semiconductor industry and a manufacturer of mechatronic products used in the design and production of electronic instruments and systems. In FY18, the Group reached revenues of JPY

282.5bn (€2.2bn). It operates through 3 different segments:

- Semiconductor and Components Test Systems segment which offers test systems for semiconductor and electronic components industries (75% of FY18 total sales) with a particular focus on DRAM and more recently on SoC;
- Mechatronic segment which provides the semiconductor device handling mechatronic applied products such as testers, handlers, device interfaces and nanotechnology products (14% of FY18 total sales);
- Others segment involves in the customer solution, support and equipment leasing services.

*Chroma ATE (Taiwan):
ATE test manufacturing*

Chroma ATE, headquartered in Taiwan and listed on Taiwan Stock Exchange, engages in the provision of back-end semiconductor equipment and services. It operates through the Semiconductor Test and Inspection (98% of FY18 total revenue), and Printed Circuit Board Test. In FY18, the company registered revenues for TWD 16,931mln (€476mln).

*Cohu (USA): ATE test
manufacturing*

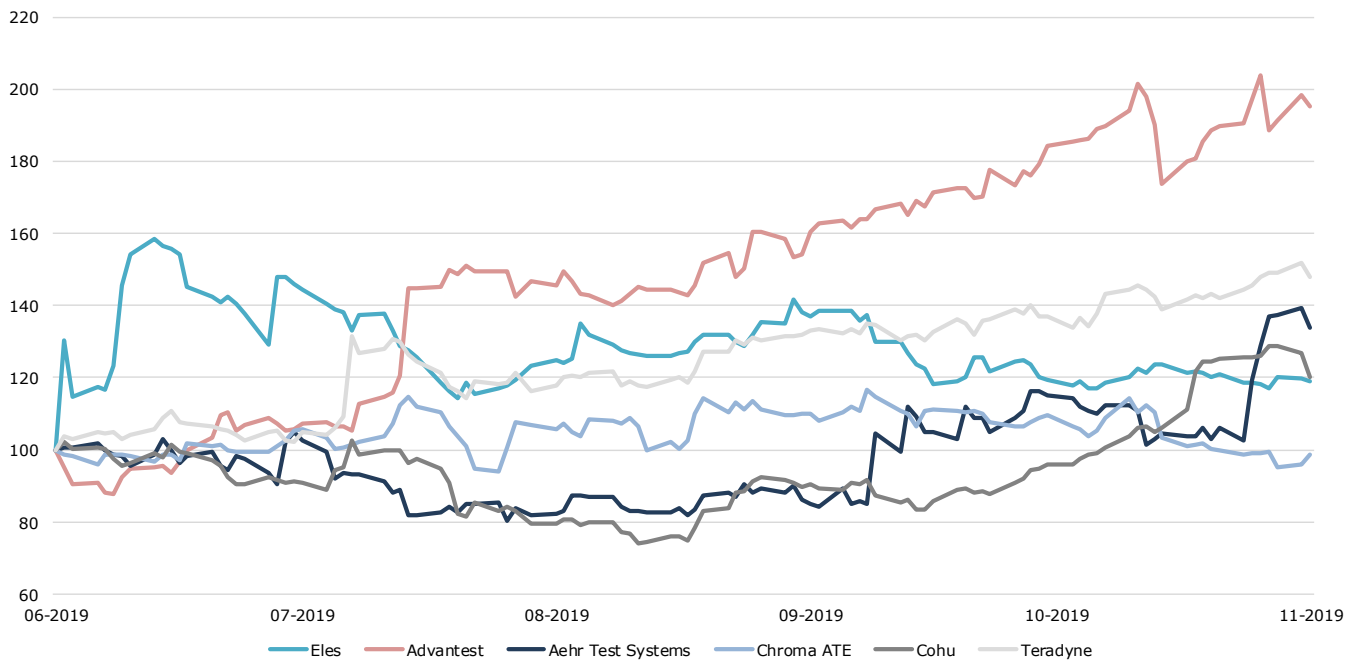
Cohu, headquartered in Norwood (USA) and listed on Nasdaq, engages in the provision of back-end semiconductor equipment and services. It operates through the Semiconductor Test and Inspection (98% of FY18 total revenue), and Printed Circuit Board Test. In FY18, the company reached revenue of \$452mln.

*Teradyne (USA): ATE
test manufacturing*

Teradyne, headquartered in North Reading (USA) and listed on Nasdaq, supplies automation equipment for test and industrial applications. In FY18, the company reached revenue of \$2,101mln. It operates through 4 main segments:

- Semiconductor Test segment (71% of FY18 total revenue) which designs, manufactures, sells, and supports semiconductor test products and services which are used both for wafer level and device package testing;
- Systems Test segment (10% of FY18 total revenue) which comprises of defence and aerospace, storage test, and production board test business unit;
- Wireless Test segment (6% of FY18 total revenue) which designs, develops, and supports advanced wireless test equipment for the manufacturing of wireless devices such as smartphones, tablets, notebooks, laptops, personal computer peripherals, and other Wi-Fi, Bluetooth, near field communication and cellular enabled devices;
- Industrial Automation segment (12% of FY18 total revenue) which supplies collaborative robots that work side by side with production workers.

Figure 7: *Eles and its comparable's stock price performance since Eles IPO*



Source: Banca Profilo elaborations on Bloomberg data

Stock market performance from 19-Jun to 19-Nov

During last 5 month Eles has shown a stock performance in line with its major comparable companies. We intentionally excluded Eles' first trading day due to market volatility.

Eles overview and business model

The Group overview and activities

Eles is a National integrated player active in the production of testing machines for semiconductor industry

Eles Semiconductor Equipment S.p.A. ("Eles") was founded in 1988 by Antonio Zaffarami (ELES' current Chairman and main shareholder) as a specialized company in the production and distribution of test solutions for semiconductors. Since its inception, Eles has collaborated with major semiconductor players, including STMicroelectronics, to realize specific tests on their semiconductors.

A story of success:

In the following years, Eles improved its business model and, in 2002, the Company launched ART200, a universal test platform used to test several semiconductor devices through software libraries configuration.

International expansion

In 2005 Eles started an international expansion by setting up two foreign branches: ELES North America Inc. (Silicon Valley, CA) and ELES Semiconductor Equipment PTE Ltd (Singapore).

2T ART in 2010

In 2010, the Company developed 2T ART, a universal thermal platform which combines intern design competences to develop a 360 degree solution, including both thermal and electric tests.

ELITE in 2013

In 2013, ELES joined the Borsa Italiana ELITE program and after two years obtained the certification.

RETE approach in 2016

In 2016, the Company launched the Reliability Embedded Test Engineering solution which allows for testing of semiconductors devices at every stage of their development - from the design validation & qualification to the mass production phase - in order to achieve zero defects.

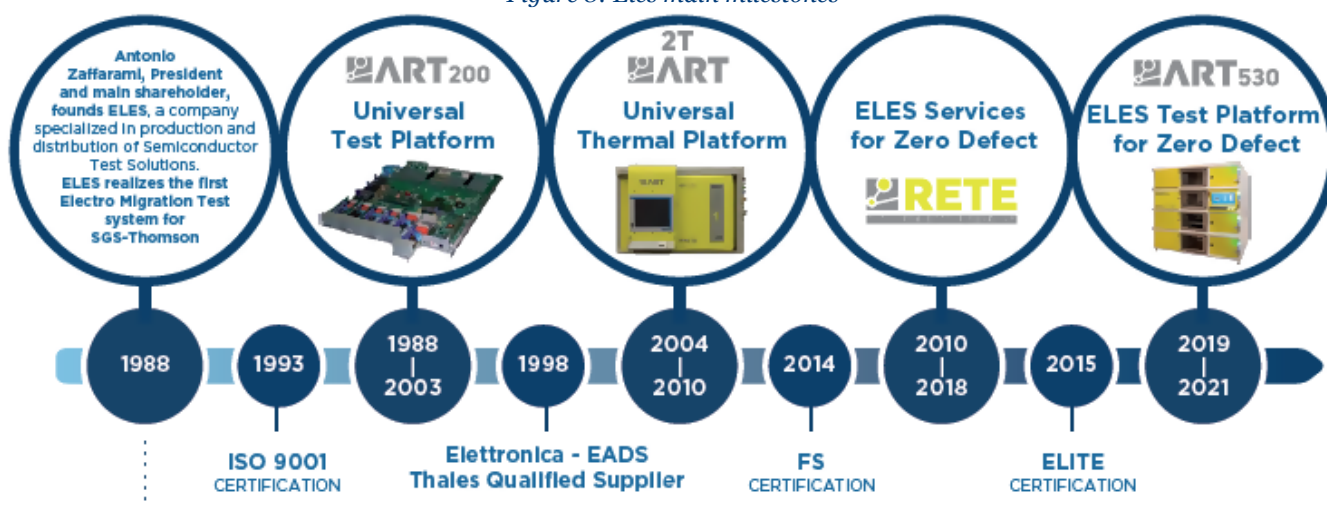
Focus on automotive industry with ECU test

In 2016, ELES decided to address its offer to Electronic Control Unit in the automotive industry, enhancing the tests from single semiconductors to entire systems.

AIM listing in 2019

On June 19th, 2019, ELES was listed on the AIM segment of the Italian Stock Exchange with a market capitalization of €20.1mn and a fund raising of €6.0mn. IPO's proceeds will support the innovation process of the company and its market share expansion through internal and external growth, and the organizational upgrade. Through the listing, the company could benefit from the brand awareness reinforcement in Italy and abroad.

Figure 8: Eles main milestones



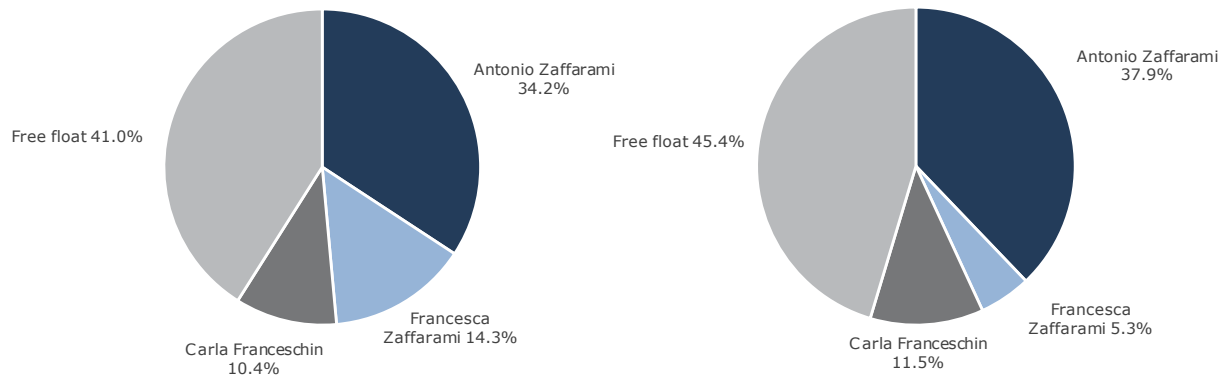
Source: Company's Investor Presentation

Zaffarami family at 59%

The Group is controlled by Zaffarami family with its founder Antonio Zaffarami (Chairman), which owns a 34.2% stake, followed by his daughter Francesca Zaffarami

(CEO) with a 14.1% stake and Carla Franceschin with a 10.4% stake. The remaining voting rights are held by the market (41%).

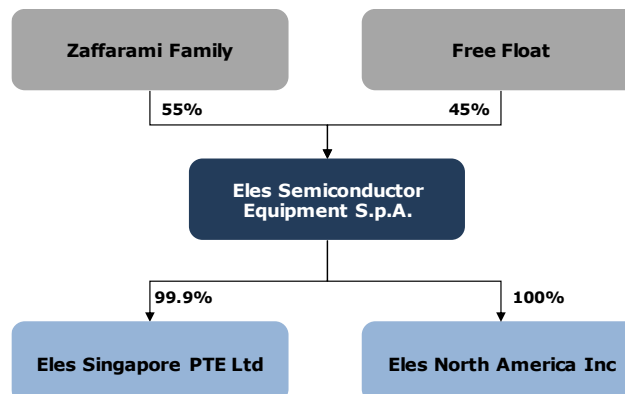
Figure 9: Eles' voting capital (left) vs share capital (right)



Source: Banca Profilo elaborations on Company data

In terms of share capital: 45.4% is free float; 37.9% is held by Antonio Zaffarami; 11.5% is held by Carla Franceschin; 5.3% is held by Francesca Zaffarami.

Figure 10: Eles Group perimeter



Source: Banca Profilo elaborations on Company data

International presence:
USA

Eles operates worldwide through 2 subsidiaries:

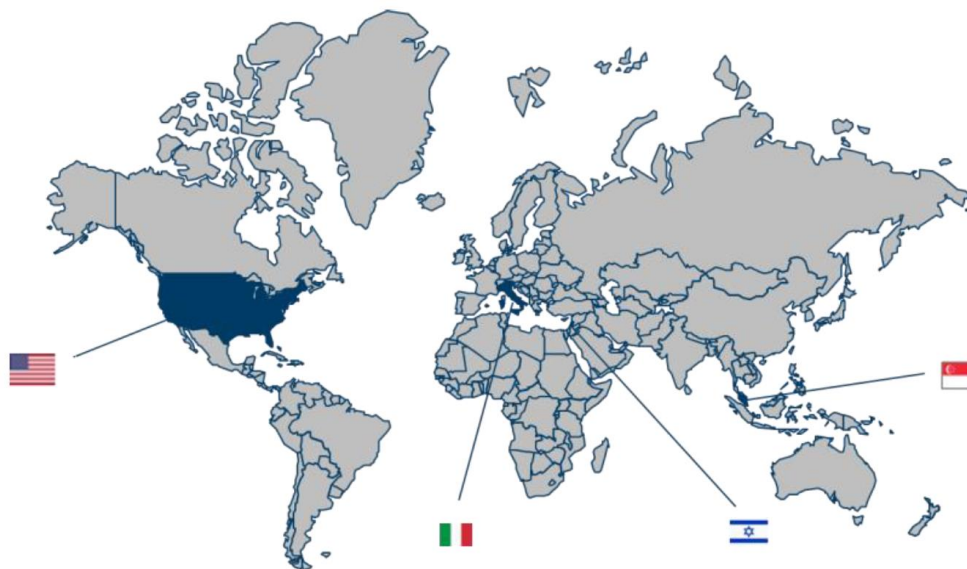
- Eles North America, a sales subsidiary based in Freemont (California) through which ELES collaborate with local test labs with the aim of allowing prospect clients to carry out testing trial with ELES' equipment before the final purchase;
- Eles Semiconductor PTE Ltd., a commercial subsidiary based in Singapore which provides technical support.

Singapore

Israel

In Israel, finally, the Group is present through a minority stake (7.3%) in ATS, an important testing laboratory on behalf of third parties.

Figure 11: *Eles geographical presence*



Source: Company's Investor Presentation

Eles reference market:
Design Validation

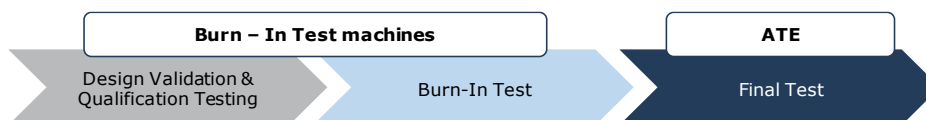
Eles' reference market for Eles can be divided into three macro activities:

- a preliminary phase of *design validation and qualification testing* ("Q&R") in which the ICs are subjected to a limited parametric and/or functional control activity, usually at the prototype level;
- systems for the *reliability & burn-In test*, aimed at: i) identifying early failure of the Device Under Test (DUT) through the application of elevated temperature and electric stimulation; ii) guaranteeing the minimization of wastes in the "Useful Life"; iii) ensuring that the end-life of the products is over the warranty period;
- systems for the *final test* (ATE), by which the company checks the correct functionality of a digital IC and its performance using automated test equipment (ATE). This test could be very costly when the design of devices is not suitable for testability and shows several limits with the increasing complexity of semiconductor devices.

Burn-In Test

Final Test

Figure 12: *Eles reference market*



Source: Banca Profilo elaborations on Company data

Focus on ICs testing

In the semiconductor market, the Group's activities are concentrated in the IC test solutions segment, meaning small semiconductor electronic devices composed of transistors, resistors and capacitors, interconnected on a substrate. The ICs represent the constituent elements of the most commonly used electronic devices.

In particular, the Group develops finalized machines and tests the following products:

Main tested products

- System-on-a-Chip (SoC): ICs that integrate all the components of a computer on a single substrate.
- Micro Electro Mechanical System (MEMS): ICs made using miniaturized mechanical and electromechanical elements.
- Memories: electronic ICs for data storage that can be divided between volatile memories and non-volatile memories.



ECU testing for automotive introduced in 2016

Furthermore, starting from 2016, Eles has expanded in the sector of ECU testing for the automotive sector:

- Electronic Control Unit: these are software control systems incorporated directly into the controlled electrical component.



Product peculiarities and eco-sustainability: laminated wood for strength and lighter weight

Historically, Eles has specialized in the assembly of machinery for the Burn-in Test and in the offer of machines for testing purposes. The Burn-in Test takes place in the so called Burn-In Chambers, assembled by Eles, in which the Burn-In Board (BiB - printed circuit boards, functional to the reliability test) are inserted, which form the basis on which the ICs are placed for the test. The ICs are loaded onto the BiBs using special electromagnetic devices called "test sockets" which constitute the interface that can be connected between an IC product and a printed circuit.

Figure 13: Burn-In Test components



Source: Company's Investor Presentation

RETE: an innovative approach towards zero defect production process

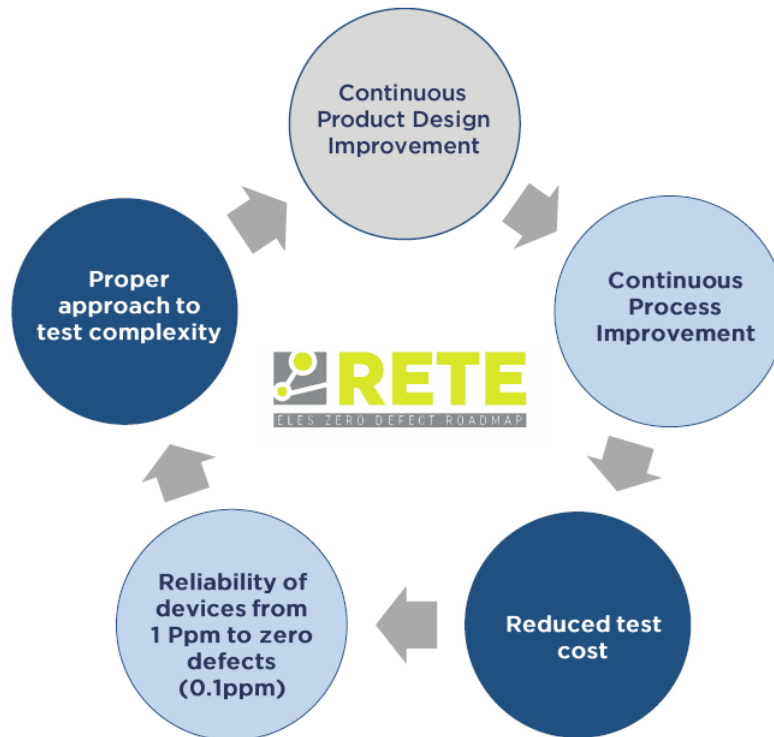
RETE: 80% of final

In order to detect early and intermittent failures, and move towards a zero-defect semiconductors production process (ppm below 0.1), Eles has developed the so-called RETE (Reliability Embedded Test Engineering) solution. RETE entails a co-engineering process with clients in order to simplify semiconductors' design, increase test coverage and reliability, with important advantages in terms of time and cost savings. Indeed, thanks to the integration of reliability tests into Design, Qualification and

testing during Burn-In phase

Manufacturing processes of ICs (Burn-In-Self-Test) it is possible to carry out up to 80% of the Final Test during the Burn-In test (Test-During-Burn-In, TDBI). Furthermore, Eles' new testing process requires lower number of testing equipment compared to traditional test, while ensuring massive parallel tests. This innovation enabled Eles to enter the ATE market where the company aims at further expanding its share in the upcoming years.

Figure 14: RETE approach



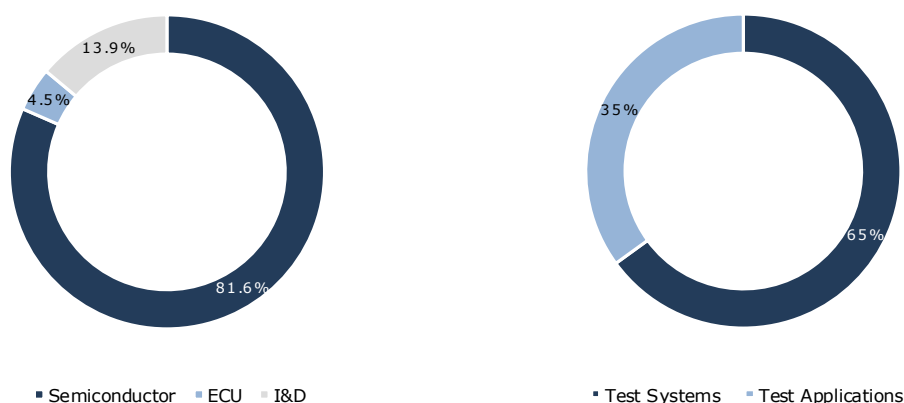
Source: Company's Investor Presentation

Eles' offering range: test systems (ART) and test applications (BiB) development

Eles' offer consists of 2 main product lines:

- Test Systems – the Universal ART Platform developed by Eles – which integrate, program and control thermal stress, electrical stress and electrical testing – could be configured using HW plug-ins and SW libraries to test the reliability and performance of different types of semiconductor devices. Tests are done within machines called "Burn-In chamber" which are internally designed and assembled by Eles but produced in outsourcing;
- Test Applications – Eles offers "consumable" products functional to testing activities, i.e. the Burn-In Board, ("BiB") and a large number of connected services such as co-engineering services and data processing recovered during test sessions.

Figure 15: FY18 revenues by client (left) and activity (right)



Source: Banca Profilo elaborations on Company data

65% of the revenues as Test Systems and 35% as Test Applications in FY18

More in detail, 65% of FY18 revenues were attributable to Test System production and 35% to Test Application. On a client basis: 82% of revenues were coming from Semiconductor testing, followed by 14% I&D and 4% ECU.

The distinctive business model

A fully integrated value chain

Eles' competitive advantage is the integration of four pillars: Test Systems (Burn-In Chamber), Test Applications (BiB), co-engineering services (RETE) and software and firmware libraries.

Research & Development at the core of the business model

In this context, the Group has developed its own business model that enables to oversee all relevant phases: from the development of the IC design, to the assembly of the test machines up to the after-sales assistance. In particular, the business model is divided into the following four macro processes:

- marketing & sales;
- research & development;
- operations;
- after-sales assistance.

Marketing & sales

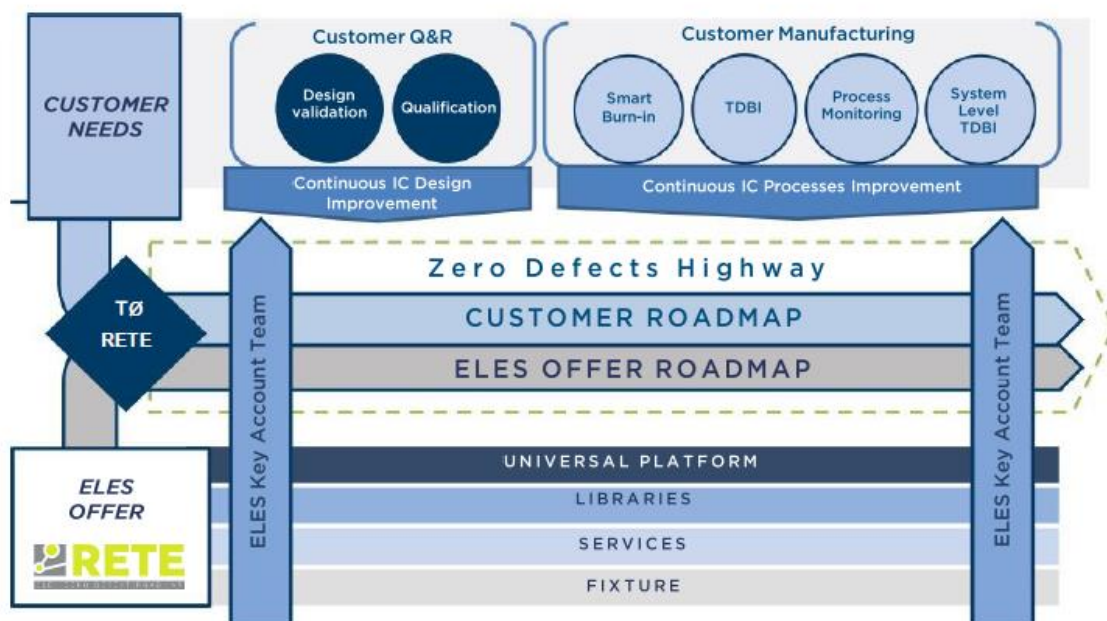
Participation to international fairs and presentation of case studies are some of the main approaches used by Eles in order to provide testing solution for its clients starting from the analysis of the market needs.

Research & Development: 10% of sales

The Semiconductor market is dominated by the Moore's Law, according to which the number of transistors on a microchip, and thus, the speed and capabilities of devices doubles every two years, though the cost of computer is halved. Today, the doubling of installed transistors on silicon chips occurs closer to 18 months. In the light of this, it is extremely important for Eles to continually innovate and develop new solutions in order to remain competitive, meet market's needs and anticipate competitors' moves. In the last 10 years, around €15mIn have been invested in R&D (an average of approximately 10% on sales basis); furthermore, about 30% of Eles employees work in the R&D department co-engineering with the client in order to constantly align clients' development needs and Eles solutions (RETE approach).

As a matter of fact the Group can count on a highly specialized number of employees: 53% holds a master degree (electronic, mechanical, IT engineering, etc.).

Figure 16: Aligning Eles roadmap to customers' roadmap



Source: Company's Investor Presentation

Operations: external supply chain for a flexible cost structure

Eles uses an external supply chain that deals with the production of test fixtures and of the modules and sub-parts of the test systems, subsequently taking care of the integration and the final testing.

After-sales assistance for a long term relationship with clients

After the sale, Eles support their clients also in the processing of the data collected during the testing phase. This allow Eles to:

- lock-in the relationship with its clients;
- to continuously upgrade its IP library, thanks to the possibility of interpreting more precisely the failures detected during the tests.

Management: long experience in the Group and sound track record

The Group is controlled by Zaffarami family with a 59% stake: the founder Antonio Zaffarami (Chairman), which owns a 34.2% stake of the Company, followed by his daughter Francesca Zaffarami (CEO) with a 14.1% stake and Carla Franceschin with a 10.4% stake. The remaining voting rights are held by the market (41%).

The Group can count on a strongly experienced management team:

Antonio Zaffarami: Founder and Chairman

After achieving a high school diploma in Electronic Engineering in 1792, Antonio Zaffarami worked as design operator at ESCO Electronics and then as Technical & Production Manager for ITELCO in 1977, a company specialized in production of radio transmission equipment where he worked for one year. After that, he founded EES Electronic Engineering Services in 1978 and Advanced Electronics in 1982. After attending a 6-month management course at SDA Bocconi, in 1988 he founded Eles Semiconductor Equipment.

Francesca Zaffarami: CEO

After obtaining a degree in Electronic Engineering from the University of Perugia, in 2003 she joined Eles as application engineer.

Between 2004 and 2006 she took part in the company's research and development project called "Wafer Level Burn-In", assisted by the Research Lab of Catania, eventually taking the lead as project manager for Eles' digitization projects. After obtaining an EMBA at the LUISS Guido Carli University in Rome in 2009, she continued

her growth in Eles under the roles of Controller and COO Assistant between the years 2008-2014.

Since 2016 she has been appointed as CEO and Vice-Chairman of the Board of Directors.

Roberto Scappito:
CFO

Roberto Scappito has been Eles' CFO since August 2019. Graduated in Economics from the University of Perugia with a master's degree in Business Management, he worked: i) from 2001 to 2008 as Controller at EMICOM GROUP; ii) in 2004 as member of the BoD of Electrosys Srl, a company of the same group; iii) in 2007 as Head of Administration, Finance and Control; iv) from 2008-2016 as Head of Control at Aria SpA; v) from 2016 to 2019 as Administration, Finance and Control Director at Tiscali Group. Furthermore, he holds an Administration, Control & Tax degree from SDA Bocconi.

Andrea Lucaroni:
Key Account Manager

Andrea Lucaroni joined Eles in 2007 as Procurement Engineer and in 2009, he was appointed Key Account Manager. Previously, he worked as Sales Manager at SICOME TEST (2003-2007). Graduated in Electronics Engineering from University of Perugia, he completed his studies with a master in Economics & Telecommunications from M.I.B. School of Management.

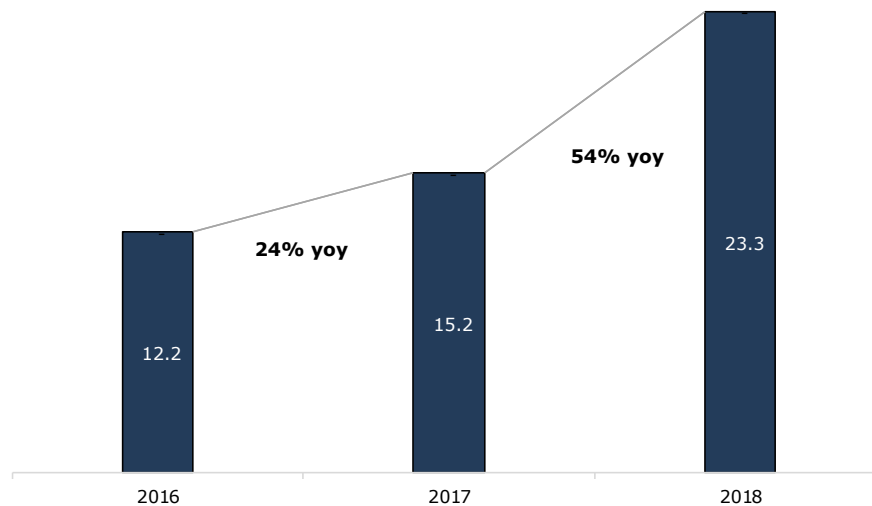
Historical operating and financial performance

Main operating and financial data

2016-2018: 38%
revenue CAGR

Eles Value of Production (VoP) increased by 38% on average in 2016-2018 period driven mainly by new client acquisitions and a better product mix.

Figure 17: Eles revenues 2016-2018

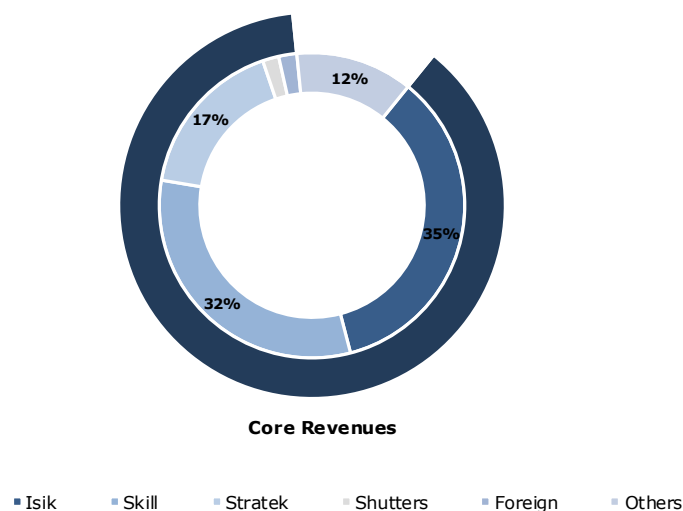


Source: Banca Profilo elaborations on Company data

2018 turnover:
€23.3mIn (+54% yoy)
85% Semiconductors
on average

In 2018, the Group VoP grew by 54% yoy to €23.3mIn. Semiconductors represent the majority of sales with an average weight of 82% over the 2016-2018 period, while the rest is made by ECU (Electronic Central Unit) and I&D (Industrial and Defence).

Figure 18: Revenue breakdown 2018



Source: Banca Profilo elaborations on Company data

*A worldwide presence:
Italy substantially
above 30%*

Italian sales accounted for 31% in FY18, while the rest of Europe for 38%, followed by a 30% weight of Asia and 2% of America.

*Cost structure: 75%
variables, of which
69% are raw materials*

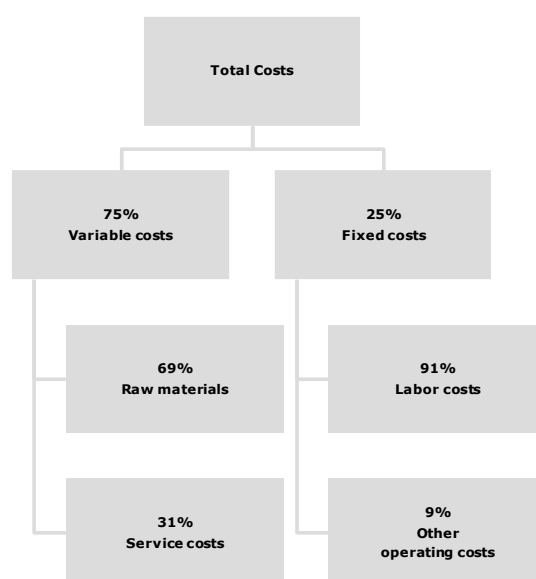
Analysing the Group cost base, in 2018 variable costs accounted for more than 75% of total cost base. Among variable expenses, raw materials weighted 69% and service costs 31%.

Within the fixed costs, labor costs made it quite all with a weight of 91%, followed by other operating costs (9%).

*A flexible cost
structure: 63% of
revenues are variable
costs*

Analysing the incidence of variable costs on revenue, this was 63% in 2018, of which raw materials at 43% and service costs at 20%.

Figure 19: Cost structure-2018

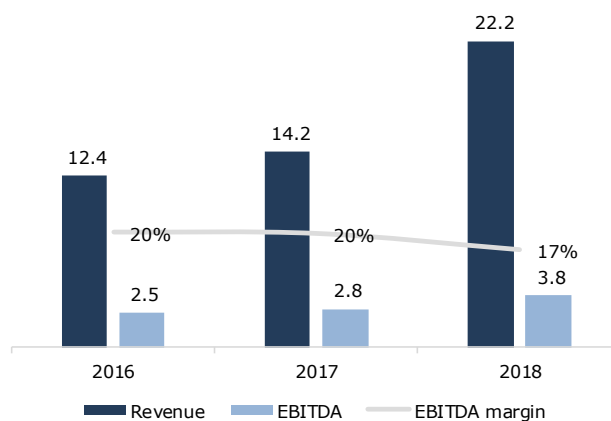


Source: Banca Profilo elaborations on Company data.

*EBITDA increasing by
23% CAGR in 2016-
2018 period to 17%*

In 2018, Eles reported an EBITDA of €3.8mIn, increasing from €2.8mIn in 2017 with EBITDA margin falling to 17% from 19.7%, mainly as a consequence of the expansion of the Test System division which led to a higher incidence of: i) costs for products and raw material; ii) costs for external production.

Figure 20: Eles revenue and margins 2016-2018 (€mIn and %)



Source: Banca Profilo elaborations and estimates on Company data

Net income: €0.8m in 2018

In 2018, the Group accounted €2.2m as D&A (10% of revenues) and €0.2m of net financial expenses, based on a 3% average interest cost. Tax rate was 39% in 2018 leading to a Net income of €0.8m.

Table 1: Eles Profit & Loss 2017-2018

Profit & Loss (€/m)	2017	2018
Revenues	14.2	22.2
yoy	13.9%	56.6%
Semiconductor	13.0	18.1
% on revenues	91%	82%
ECU	1.2	4.1
% on revenues	9%	18%
Others	1.0	1.1
Value of production	15.2	23.3
yoy	24.3%	53.9%
Raw materials	(6.0)	(10.1)
Service costs	(2.6)	(4.5)
Other operating costs	(0.3)	(0.4)
Value added	6.2	8.2
margin	43.6%	37.1%
Labour costs	(3.4)	(4.4)
EBITDA	2.8	3.8
margin	19.7%	17.0%
D&A	(2.2)	(2.2)
Provision for risks	(0.0)	(0.1)
EBIT	0.6	1.5
margin	4.3%	6.6%
Net financial expenses	(0.3)	(0.2)
Extraordinary items	-	-
EBT	0.4	1.2
Taxes	(0.2)	(0.5)
tax rate	47.4%	38.7%
Net profit	0.2	0.8

Source: Banca Profilo elaborations and estimates on Company data

Balance Sheet: capital intensive structure; NWC to be optimized (19% on sales in 2018)

On the Balance Sheet side, at the end of 2018, the Group had €8.3m of Fixed assets, €5.2m of operating Net Working Capital financed by €6.5m of Equity and €4.9m of Net debt. In 2018, NWC increased mainly due to: i) business growth; ii) increasing inventory for the acquisition of raw materials for the testing equipment. Over the 2016-18 period, Eles has capitalized a decreasing share of its R&D investments as large part of R&D expenses is made by clients. As a result, the level of intangible assets decreased by €2.5m since 2016. In 2018, Eles acquired a minority stake (7.3%) in the Israeli company A.T.S Engineering Ltd, an important lab which offers Integrated Circuits testing services on behalf of third parties.

Table 2: Eles Balance Sheet 2017-2018

Balance Sheet (€/mln)	2017	2018
Stock	3.1	3.8
Accounts receivables	5.6	5.9
Accounts payables	(3.8)	(4.4)
Operating Net Working Capital	4.8	5.2
Other current assets & liabilities	(0.9)	(0.9)
Net Working Capital	3.9	4.4
Intangibles	5.2	3.6
Materials	3.7	3.7
Financials	0.7	1.0
Fixed assets	9.6	8.3
Funds	(1.3)	(1.3)
Other non current assets & liabilities	0.1	0.0
Net Invested Capital	12.3	11.4
Equity	5.8	6.5
Share capital	3.4	3.4
Reserves	2.2	2.4
Net profit	0.2	0.8
Minorities	-	-
Net debt (cash)	6.6	4.9

Source: Banca Profilo elaborations on Company data

Operating cash flow in 2018: €3.2mln only partially absorbed by Capex (€0.7mln) and operating NWC (€0.4mln)

In 2018, Eles generated €3.2mln of operating cash flow, which was only partially invested in €0.7mln Capex and €0.4mln operating NWC, leading dynamics led to a Free Cash Flow of €2.2mln.

Table 3: Eles Free Cash Flow 2017-2018

Cash flow (€/mln)	2017	2018
EBIT	0.6	1.5
taxes	(0.2)	(0.5)
NOPAT	0.4	1.0
D&A	2.2	2.2
Operating cash flow	2.6	3.2
Operating Net Working Capital change	(1.3)	(0.4)
Other funds	0.0	0.1
Capex	(0.9)	(0.7)
FCF	0.4	2.2

Source: Banca Profilo elaborations and estimates on Company data

Strategy and estimates

Corporate strategies

4 big macro trends: AI, 5G, Autonomous Driving and BD Following the Industry slowdown and related Eles' revenues decline in 2019, Eles sales are forecasted to recover in 2020. In particular revenue is projected to come back to 2018 level and grow further, considering the big macro trends (AI, 5G, Autonomous Driving, Big Data) which will lead to a rebound in the Industry.

Management projects: Main corporate strategy consist of the following guidelines:

- New products and markets development: i) RETE test approach towards zero defects (from 1ppm to 0.1ppm); ii) local temperature control to be developed in 2020 in order to reach zero defect target lower than 10ppb; iii) system level test during burn-in to be developed in 2020 in order to reach zero defect target lower than 10ppb; iv) RETE reliability test approach for ECU (Electronic Control Unit) for automotive in order to reach zero defect target lower than 10ppb.
- New geographies entry through strategic partnership. Thanks to XCET Electronic (private company with established relationships with hi-tech laboratories in China) commercial agreement, Eles is going to enter the Chinese market. XCET represents an opportunity for Eles to penetrate Chinese market through the wide portfolio of XCET customers especially in the area of device qualification.
- Current client consolidation and new strategic customer acquisition, especially in automotive ECU testing market.
- External growth through M&A acquisitions in US and Asia. M&A negotiations have started with three US companies in Semiconductors Burn-In Test market, whose client portfolio is complementary to Eles' one. Ultimate project objective is STAR-Nasdaq dual listing. Operation would consist of 51%-60% immediate acquisition followed by 40%-49% dual listing contribution.

new products and market development

XCET partnership in China

M&A opportunities in US and potential dual listing on Nasdaq

Our estimates 2019E-2022E

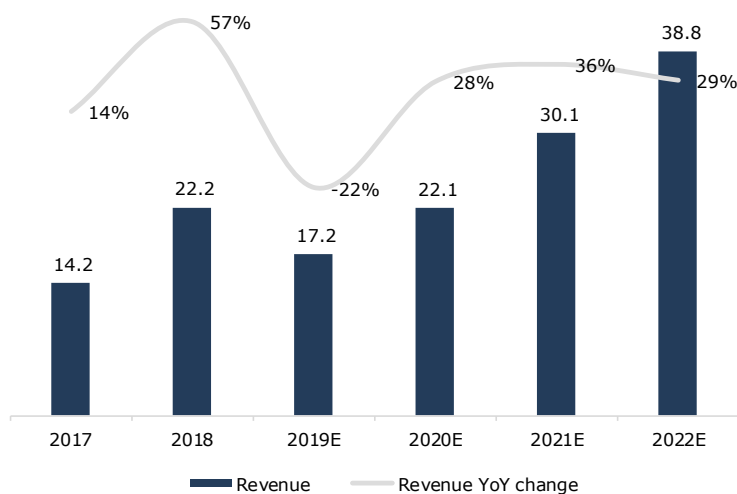
Our estimates are stand alone, based on Eles current perimeter. Since the Company hasn't announced any explicit use of IPO proceeds we have kept them as available cash for growth.

The Group to outpace its reference market: 14% VoP CAGR 2018-2023E We expect Eles to keep outpacing its reference market growth, given: i) its strategic and unique positioning; ii) innovative products which will exploit the TBID market; and iii) strategic partnership in major international markets. We project a 14% VoP CAGR (2018-2022E) for the Group to reach €39mIn in 2022E.

Revenue assumptions: Semiconductors and ECU business growth rebound starting in 2020E More in details, revenue growth will be driven by Semiconductors and ECU expected rebound starting from 2020E:

- Semiconductors – are estimates to increase all over the 2019E-2020E period through: i) increasing sales to big market players in order to make Eles their main partner; ii) new client acquisition in US and Europe; iii) commercial agreement with XCET to develop Chinese market.
- ECU – includes Automotive and Aerospace & Defence (previously mentioned as I&D, Industrial & Defence). ECU revenue exponential growth is driven by acquired clients and new client sales within the Automotive and Aerospace sectors, in line with big macro trends forecasted.

Figure 21: Eles revenue trend (€mln) 2017-2022E



Source: Banca Profilo elaborations and estimates on Company data

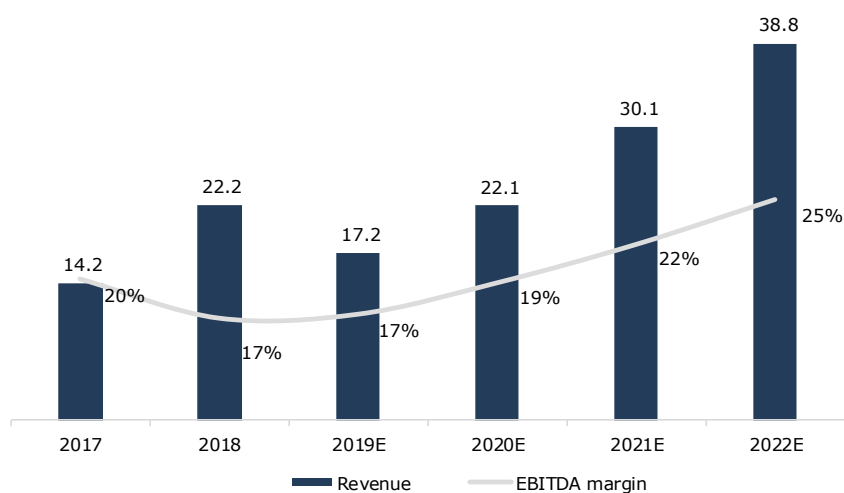
Costs assumptions:

raw materials as a percentage of sales and decreasing over the period

We project costs as follows:

- raw materials – incidence on revenue is expected to decrease over the 2019E-2022E period due to: i) continuous product improvement; ii) enlargement of European qualified suppliers; iii) decreased assembling costs and procurement of assembled mechanical parts from China; iv) partial outsourcing of production to China for Asian Market. We project raw materials weight on sales at about 41% in 2022E (vs 45% in 2018);
- personnel costs – personnel incidence on revenues is also expected to decrease over the period due to: i) optimization of product batches; ii) partial outsourcing of production in China. Personnel costs are expected to increase over the period in order to support growth.

Figure 22: Revenue (€mln) and EBITDA margin trend 2017-2022E



Source: Banca Profilo elaborations and estimates on Company data

2022E EBITDA: improving to €9.8mln (vs €3.8mln in 2018) with margin at 25% (vs 17% in 2018)

In 2019E-2022E, we expect the Group to improve the EBITDA to €9.8mln (from €3.8mln in 2018) and EBITDA margin to 25% (from 17% in 2018) mainly driven by the development of new products and the costs reductions.

Net income above
€3.7mIn in 2022E (vs
€0.8mIn in 2018).

With regards to net financial expenses, we project a flat interest rate of 2.6%, leading to some €200k per year. We end up with Net income improving from €0.8mIn in 2018 to €3.7mIn in 2022E.

Table 4: Eles Profit & Loss 2017-2022E

Profit & Loss (€/mIn)	2017	2018	2019E	2020E	2021E	2022E
Revenues	14.2	22.2	17.2	22.1	30.1	38.8
yoy	13.9%	56.6%	-22.2%	28.2%	36.3%	28.8%
Semiconductor	13.0	18.1	16.0	19.1	24.1	30.9
% on revenues	91%	82%	92%	87%	80%	80%
ECU	1.2	4.1	1.3	3.0	6.0	8.0
% on revenues	9%	18%	8%	13%	20%	20%
Others	1.0	1.1	0.3	0.3	0.3	0.3
Value of production	15.2	23.3	17.6	22.4	30.5	39.2
yoy	24.3%	53.9%	-24.6%	27.7%	35.8%	28.5%
Raw materials	(6.0)	(10.1)	(7.6)	(9.6)	(12.8)	(16.0)
Service costs	(2.6)	(4.5)	(3.2)	(3.9)	(5.3)	(6.8)
Other operating costs	(0.3)	(0.4)	(0.3)	(0.3)	(0.3)	(0.3)
Value added	6.2	8.2	6.5	8.6	12.0	16.1
margin	43.6%	37.1%	37.7%	38.8%	39.8%	41.3%
Labour costs	(3.4)	(4.4)	(3.5)	(4.3)	(5.3)	(6.3)
EBITDA	2.8	3.8	3.0	4.3	6.7	9.8
margin	19.7%	17.0%	17.3%	19.5%	22.1%	25.2%
D&A	(2.2)	(2.2)	(1.7)	(2.5)	(3.1)	(3.5)
Provision for risks	(0.0)	(0.1)	(0.0)	(0.1)	(0.1)	(0.1)
EBIT	0.6	1.5	1.2	1.8	3.5	6.1
margin	4.3%	6.6%	7.1%	7.9%	11.6%	15.8%
Net financial expenses	(0.3)	(0.2)	(0.2)	(0.2)	(0.1)	(0.1)
Extraordinary items	-	-	(0.2)	-	-	-
EBT	0.4	1.2	0.8	1.6	3.4	6.1
Taxes	(0.2)	(0.5)	(0.3)	(0.6)	(1.3)	(2.3)
tax rate	47.4%	38.7%	38.7%	38.7%	38.7%	38.7%
Net profit	0.2	0.8	0.5	1.0	2.1	3.7

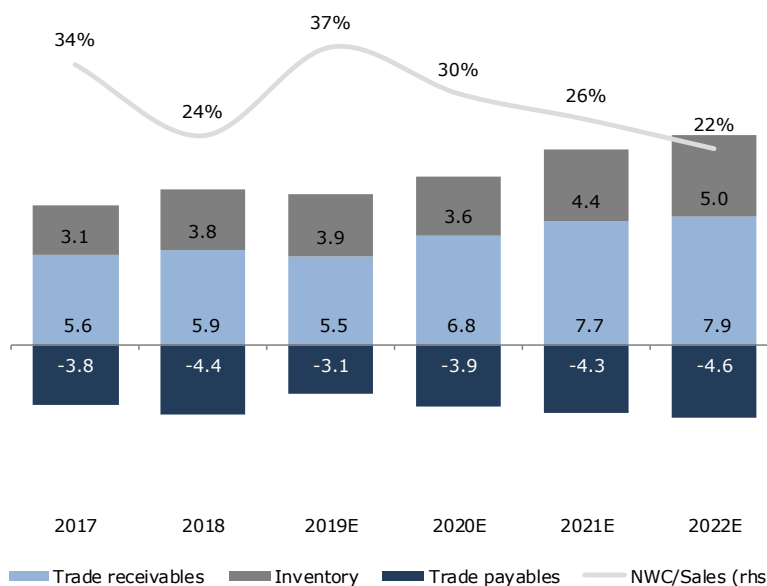
Source: Banca Profilo elaborations and estimates on Company data

Balance Sheet
projections: increasing
NWC (€3.2mIn) and
Capex (€11.4mIn) for
new machines

With regards to our Balance Sheet projections (2019E-2022E), we have included:

- €11.4mIn Capex: digitalization investments mainly aimed to process automation and support growth (ERP, Cyber Security and PLM software); ii) operation & facility investments dedicated to the equipment needed to support new products and markets development; iii) R&D development projects which include personnel, materials, project costs and laboratory equipment.
- €3.2mIn of operating Net Working Capital increase to €8.4mIn or 21% of sales. DSO are forecasted to decrease due to increasing Chinese customers whom will pay immediately through letters of credit. DPO are expected to decrease due to increasing purchases from foreign market.

Figure 23: Net working capital composition and dynamics



Source: Banca Profilo elaborations and estimates on Company data

NWC optimisation starting: from 24% in 2018 to 22% in 2022E

Operating NWC on sales ratio is expected to initially increase over the 2019E-2022E period and then to decrease slightly lower than 2018 levels at 22%.

Table 5: Eles Balance Sheet 2017-2022E

Balance Sheet (€/mln)	2017	2018	2019E	2020E	2021E	2022E
Stock	3.1	3.8	3.9	3.6	4.4	5.0
Accounts receivables	5.6	5.9	5.5	6.8	7.7	7.9
Accounts payables	(3.8)	(4.4)	(3.1)	(3.9)	(4.3)	(4.6)
Operating Net Working Capital	4.8	5.2	6.3	6.6	7.8	8.4
Other current assets & liabilities	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
Net Working Capital	3.9	4.4	5.4	5.7	6.9	7.5
Intangibles	5.2	3.6	4.2	5.2	5.3	4.2
Materials	3.7	3.7	3.6	4.0	3.8	3.0
Financials	0.7	1.0	1.0	1.0	1.0	1.0
Fixed assets	9.6	8.3	8.8	10.2	10.0	8.2
Funds	(1.3)	(1.3)	(1.1)	(1.5)	(2.1)	(2.9)
Other non current assets & liabilities	0.1	0.0	-	-	-	-
Net Invested Capital	12.3	11.4	13.2	14.4	14.9	12.8
Equity	5.8	6.5	12.2	13.2	15.2	18.9
Share capital	3.4	3.4	4.0	4.0	4.0	4.0
Reserves	2.2	2.4	7.7	8.2	9.2	11.2
Net profit	0.2	0.8	0.5	1.0	2.1	3.7
Minorities	-	-	-	-	-	-
Net debt (cash)	6.6	4.9	1.0	1.3	(0.4)	(6.1)

Source: Banca Profilo elaborations and estimates on Company data

A gradual decrease in Net debt to €6.1mln cash in 2022E

We expect Net debt to gradually decline to a net cash of €6.1mln (including ca €5mln of IPO proceed available as cash since 2019E) at the end of 2022E (from €1mln net debt at the end of 2018), based on current trends and management strategic optimization plans and investments,

€18.8mln of Operating Cash Flows partially dried out by Capex and Working Capital needs

According to our Profit & Loss and Balance Sheet estimates, in 2019E-2022E we project €18.8mln of Operating Cash Flows, partially used to finance €11.4mln of Capex and almost €3.2mln of operating Net Working Capital increase. Therefore, cumulated FCF over the period is equal to €5.8mln.

Table 6: *Eles Free Cash Flow evolution 2017-2022E*

Cash flow (€/mln)	2017	2018	2019E	2020E	2021E	2022E
EBIT	0.6	1.5	1.2	1.8	3.5	6.1
taxes	(0.2)	(0.5)	(0.3)	(0.6)	(1.3)	(2.3)
NOPAT	0.4	1.0	0.9	1.1	2.2	3.8
D&A	2.2	2.2	1.7	2.5	3.1	3.5
Operating cash flow	2.6	3.2	2.6	3.6	5.3	7.3
Operating Net Working Capital change	(1.3)	(0.4)	(1.1)	(0.3)	(1.2)	(0.6)
Other funds	0.0	0.1	(0.2)	0.4	0.6	0.8
Capex	(0.9)	(0.7)	(2.2)	(3.9)	(2.9)	(2.4)
FCF	0.4	2.2	(0.9)	(0.2)	1.8	5.1

Source: Banca Profilo elaborations and estimates on Company data

1H19 on track to our 2019E estimates: EBITDA margin improving 180bps to 17.1%

On track to 2019E figures:

- 1H19 figures show a slowdown of Group sales mainly due to unexpected negative macro events in Semiconductor and ECU markets: i) trade war between US and China; ii) dieselgate. Sales stood at €10mln (-15.4% yoy). Despite the slowdown in the Automotive European market and the profit warnings announced by semiconductor manufacturers, Eles has managed to achieve the results expected from Budget. This has been allowed by the fact that in the positive phases of the economic cycle of its customers Eles increases the sale of test systems, while in the negative phases it increases the sale of specific services and products to support the testing activities. In fact, during negative cycles semiconductor companies tend to reduce their investments in functional activities for mass production, but they increase the functional investments in research and development;
- thanks to Eles flexible cost structure and efficiencies, EBITDA margin increased to 17.1% from 15.3% 1H18;
- at the end of June, Net debt stood at €0.6mln from €4.9mln at the end of 2018, mainly due to IPO proceeds available as cash.

Table 7: Eles 1H19 figures

Profit & Loss (€/mln)	1H18	1H19
Revenues	11.7	9.8
Others	0.0	0.2
Value of production	11.8	10.0
yoy		-15.4%
Raw materials	(5.0)	(4.2)
Service costs	(2.6)	(2.0)
Other operating costs	(0.2)	(0.2)
Value added	4.1	3.6
margin	34.6%	36.8%
Labour costs	(2.3)	(1.9)
EBITDA	1.8	1.7
margin	15.3%	17.1%
D&A	(1.1)	(0.9)
Provision for risks	(0.1)	(0.0)
EBIT	0.6	0.8
margin	5.2%	7.8%
Net financial expenses	(0.1)	(0.1)
EBT	0.5	0.7
Taxes	(0.2)	(0.2)
tax rate	40.9%	37.0%
Net profit	0.3	0.4
margin	2.4%	4.2%

Balance Sheet (€/mln)	FY18	1H19
Operating NWC	5.2	5.6
Fixed assets	8.3	8.5
Net Invested Capital	11.4	12.7
Equity	6.5	12.1
Net debt	4.9	0.6

Source: Banca Profilo elaborations and estimates on Company data

Estimates execution risks

Key risks:

- potential political market risks coming from a longer than expected trade war;
- high growth rates can lead to cost management issues and challenge the Net Working Capital control;
- rising competition.

On the other side, any agreement on US-China or US-Europe tariffs will reinforce market expectations on a rebound in Semiconductors.

Valuation

DCF approach to appraise a fast evolving business model

Given perspective strong growth of Sales and EBITDA leading to a robust average FCFs growth, we believe that a DCF well appraise as valuation method.

Market multiple valuation on ATE and Burn-In market

Furthermore, we have selected a sample of listed players active in the industry of ATE and Burn-In tests to run the market multiple relative valuation.

DCF Valuation

DCF assumptions: €1.5mln yearly FCF on average

To run the DCF model, we use our projections of unlevered FCFs for the 2019E-2022E explicit period: €5.8mln cumulated and €1.5mln as yearly average.

In order to assess the Terminal Value, we factor in:

- an average yearly unlevered FCF of €4.9mln;
- 2% perpetual growth rate.

Table 8: Unlevered FCFs

Cash flow (€/mln)	2019E	2020E	2021E	2022E	TV
EBIT	1.2	1.8	3.5	6.1	
taxes	(0.3)	(0.6)	(1.3)	(2.3)	
NOPAT	0.9	1.1	2.2	3.8	
D&A	1.7	2.5	3.1	3.5	
Operating cash flow	2.6	3.6	5.3	7.3	
Operating Net Working Capital change	(1.1)	(0.3)	(1.2)	(0.6)	
Other funds	(0.2)	0.4	0.6	0.8	
Capex	(2.2)	(3.9)	(2.9)	(2.4)	
FCF	(0.9)	(0.2)	1.8	5.1	4.9

Source: Banca Profilo estimates and elaborations

DCF assumptions: WACC at 7.1%

We would apply a WACC of 7.1% derived from:

- risk free rate of 3.5%, including the 30Y Italian BTP yield (Bloomberg, as of 16th December 2019) and 1% estimated increase of interest rates;
- market risk premium of 5%;
- beta at 1.5, coming from the average of chosen listed peers to Eles;
- D/E target at 0.7.

Table 9: WACC calculation

WACC Calculation	
perpetual growth rate	2.0%
WACC	7.1%
risk free rate (30Y) (Bloomberg projections)	3.5%
equity risk premium	5%
beta	1.5
KE	11.0%
cost of debt	2.6%
tax rate	30%
KD	1.8%

Source: Banca Profilo estimates and elaborations

DCF valuation: €7.1/share

The DCF method leads us to an Enterprise Value of €79.9mln and an Equity Value of €78.9mln or €7.1/share, including the Net debt at 2019E.

Table 10: DCF valuation

DCF Valuation	2019E	2020E	2021E	2022E	TV
Free Cash Flows (€/mln)	(0.9)	(0.2)	1.8	5.1	4.9
years	1.0	2.0	3.0	4.0	
discount factor	0.9	0.9	0.8	0.8	
NPV Cash flows (€/mln)	(0.8)	(0.1)	1.4	3.9	
Sum of NPVs (€/mln)	(0.8)	(1.0)	0.5	4.4	
Terminal Value (€/mln)					99.3
NPV Terminal Value (€/mln)					75.5
Enterprise Value (€/mln)					79.9
Net debt end of 2019E (€/mln)					1.0
Equity Value (€/mln)					78.9
number of shares (mln)					11.2
Per share value (€)					7.1

Source: Banca Profilo estimates and elaborations

Relative Valuation on multiples

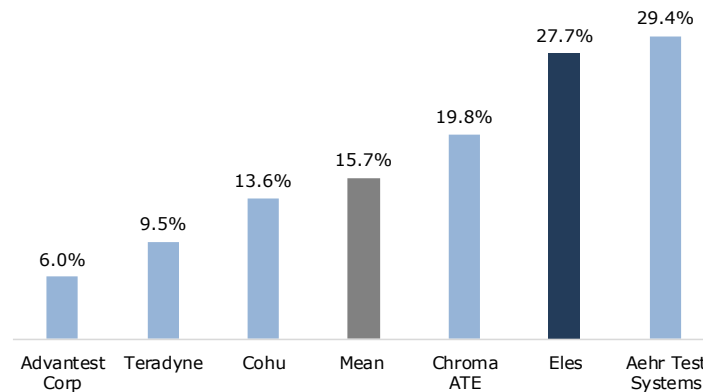
We provide a list of peers that best adapts to Eles business model. We concentrate our selection on listed players active in the ATE and Burn-In markets. Within this sector we selected: Aehr Test Systems (USA), Advantest (JP), Chroma ATE (Taiwan), Cohu (USA), Teradyne (USA).

Table 11: Market multiples

Company	Country	Currency	Market Cap	Net debt	Minorities	EV
(mln)						
Aehr Test Systems	UNITED STATES	U.S. Dollar	45	0.0	0.0	45.5
Advantest Corp	JAPAN	Japanese Yen	1,145,513	269,200.0	0.0	1,414,713.3
Chroma ATE	TAIWAN	Taiwan Dollar	56,815	-1,537.0	280.3	55,557.9
Cohu	UNITED STATES	U.S. Dollar	843	352.8	-0.3	1,195.2
Teradyne	UNITED STATES	U.S. Dollar	11,176	-824.6	0.0	10,351.2

Source: Banca Profilo elaborations on elaborations on FactSet (as of 16th December 2019)

Figure 24: 2020E revenue growth (Eles vs peers)

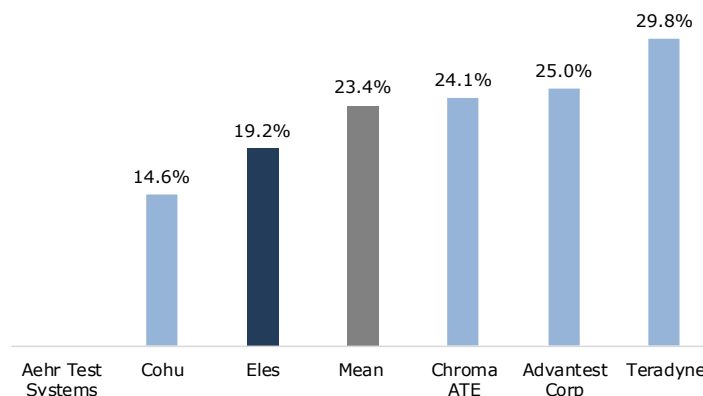


Source: Banca Profilo elaborations on elaborations on FactSet (as of 16th December 2019)

Eles' growing faster than its reference market in 2020E

In 2020E Eles is expected to grow faster than its average reference market (+27.7% yoy vs 15.7% on average).

Figure 25: 2020E EBITDA margin (Eles vs peers)



Source: Banca Profilo elaborations on elaborations on FactSet (as of 16th December 2019)

Eles' margin in line with average reference market

In 2020E, Eles' profitability is still on its way to be improved in order to reach markets average at 23.4% EBITDA margin.

*EV/Sales 2020E 3.2x
EV/EBITDA 2020E 15.4x*

Our sample shows a mean EV/Sales 2020E of 3.2x and a mean EV/EBITDA 2020E of 15.4x. We decided to focus our benchmarking analysis only on 2020E for two reasons: i) 2019E values are already based on pre-closing figures; ii) in 2019 the Semiconductor Industry experienced some exceptional macro events such as trade war which are temporarily influencing the market.

Table 12: Sample benchmarking

Company	Sales growth				EBITDA margin			
	2017	2018	2019E	2020E	2017	2018	2019E	2020E
Aehr Test Systems	47.0%	-2.3%	4.5%	29.4%	n.a.	n.a.	n.a.	n.a.
Advantest Corp	23.3%	35.6%	-1.7%	6.0%	13.8%	22.7%	23.3%	25.0%
Chroma ATE	28.2%	13.6%	-20.6%	19.8%	22.5%	19.8%	18.8%	24.1%
Cohu	25.0%	28.1%	28.5%	13.6%	14.7%	5.4%	11.2%	14.6%
Teradyne	21.9%	-1.7%	7.1%	9.5%	31.3%	30.5%	29.5%	29.8%
Mean	29.1%	14.7%	3.6%	15.7%	20.6%	19.6%	20.7%	23.4%
Eles	24.3%	53.9%	-24.6%	27.7%	18.4%	16.2%	17.0%	19.2%

Source: Banca Profilo estimates and elaborations on FactSet (as of 16th December 2019)

Table 13: Market multiples

Company	EV / Sales		EV / EBITDA	
	2019E	2020E	2019E	2020E
Aehr Test Systems	1.8x	1.4x	n.a.	n.a.
Advantest Corp	5.5x	5.1x	23.4x	20.6x
Chroma ATE	4.1x	3.4x	22.0x	14.3x
Cohu	2.1x	1.8x	18.4x	12.4x
Teradyne	4.6x	4.2x	15.6x	14.1x
Mean	3.6x	3.2x	19.8x	15.4x
Eles	3.4x	2.7x	20.0x	13.9x

Source: Banca Profilo estimates and elaborations on FactSet (as of 16th December 2019)

Market multiples valuation: €5.83/share

Our relative valuation based on the peers' average EV/EBITDA 2020E led to an Equity Value of €65.1mIn or €5.83/share.

Table 14: Market multiples valuation

Relative Valuation on market multiples	
EV/EBITDA 2020E	EBITDA 2020E
15.4x	4.3
ENTERPRISE VALUE	NET DEBT 2019E
66.0	1.0
EQUITY VALUE	
65.1	
Price per share	5.83

Source: Banca Profilo estimates and elaborations on FactSet (as of 16th December 2019)

TP at €6.45/share and BUY recommendation

We set our TP at €6.45/share as the average of the DCF and market multiple valuations. This lead us to an implicit EV/EBITDA 2020E multiple of 17x, higher than average trading comparable one at 15.4x mainly due to the higher potential growth embedded by Eles.

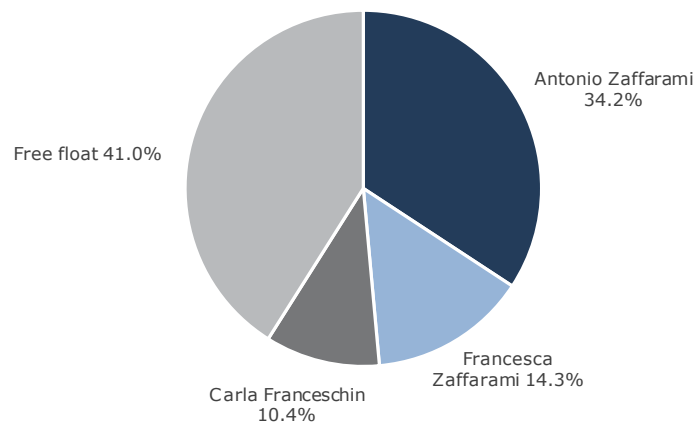
Our TP implies a potential upside of >21% on Eles' closing price (as of 16th December 2019). Our recommendation is BUY.

Shareholders and offering structure

Shareholders:
Zaffarami Family at
59%; 41% free float

The Group is controlled by Zaffarami family with a 59% stake, of which: its founder Antonio Zaffarami (Chairman), owning a 34.2% stake, followed by his daughter Francesca Zaffarami (CEO) with a 14.1% stake and Carla Franceschin with a 10.4% stake. The remaining voting rights are held by the market (41%).

Figure 26: Eles Frames shareholding structure

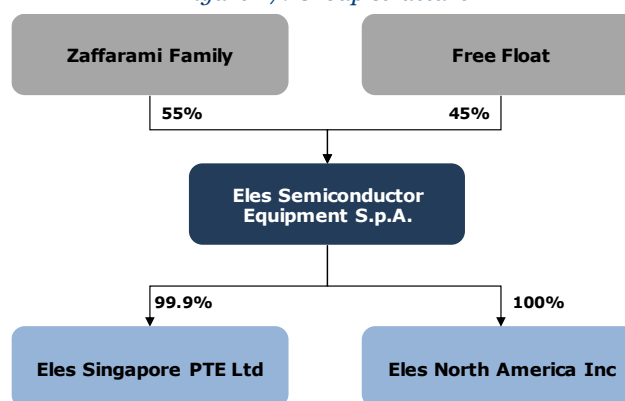


Source: Banca Profilo elaborations on Company data

**Listed on the AIM at
€3.63/share**

The Company was listed on the AIM segment of the Milan Stock Exchange on the 19th of June 2019 through a primary offering of 3,630,000 shares at €3.63/share. Total shares are 11,157,000 and the market capitalization is €59.6mIn (as of 16th December 2019).

Figure 27: Group structure



Source: Banca Profilo elaborations on Company data

**36 months lock up
period**

Zaffarami's family agreed to a lock-up period of 36 months from the day of the listing on AIM.

**Warrant strike prices
and exercise periods**

At IPO the Group issued 1 warrant each 2 ordinary share. Furthermore, on 13th of January 2020 the Group will issue 1 more warrant each two ordinary shares. The first exercise period will be in July 2020 at the strike price of €2/warrant, with a conversion

rate of 2 warrants per each ordinary share.

In order to provide the potential dilution coming from the warrant exercise, we assumed the conversion of 100% of warrant held by the market. This would lead to a decrease in Zaffarami's family controlling stake to 44.5% and into a dilution effect of 22.7%.

Table 15: Warrant dilution scenario analysis

Eles shareholding structure	N° of ordinary shares	N° of warrant	N° of warrant subscribed	N° of ordinary shares post 2020 warrant subscription	Current shareholding structure	Shareholding structure post 2020 warrant subscription
Antonio Zaffarami	4,222,862	4,222,862	-	4,222,862	37.8%	30.9%
Carla Franceschin	1,284,474	1,284,474	-	1,284,474	11.5%	9.4%
Francesca Zaffarami	588,472	588,472	-	588,472	5.3%	4.3%
Free float	5,061,192	5,061,192	5,061,192	7,591,788	45.4%	55.5%
Total	11,157,000	11,157,000	5,061,192	13,687,596	100.0%	100.0%

Source: Banca Profilo elaborations on Company data

Fully diluted TP at €6.0/share

In case of a total exercise of the warrants held by the market our fully diluted TP would be equal to €6.0/share, obtained by: a DCF valuation leading to €6.5/share (from €7.1/share); a relative valuation leading to €5.5/share (from €5.83/share).

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Eles "ID Card"

Recommendation

BUY

Target Price

6.45 €

Upside

21%

Company Overview

Eles Semiconductor Equipment S.p.A. ("Eles") was founded in 1988 by Antonio Zaffarami (ELES' current Chairman and main shareholder) as a specialized company in the production and distribution of test solutions for semiconductors. Since its inception, Eles collaborates with major semiconductor players such as STMicroelectronics by realizing specific tests on its semiconductors. The Group is controlled by its founder Antonio Zaffarami (Chairman), which owns a 34.2% stake of the Company, followed by his daughter Francesca Zaffarami (CEO) with a 14.1% stake and Carla Franceschin with a 10.4% stake. The remaining voting rights are held by the market (41%). Worldwide semiconductor market value is expected to drop by a 13% yoy in 2019E mainly due to the continuing uncertainty above US-China trade war. Despite this, the market is seen increasing on average, in particular in 2020E is expected at +5% yoy. In terms of product category, Integrated Circuits represents the biggest portion with almost a \$350bn market value in 2020E. In 2030, 35% of cars sold will have conditional automation and 15% will have high automation. The introduction of new technological features such as innovative sensors, mapping application, connectivity platforms will increase the demand for automotive semiconductors and provide a major long-term growth engine. In 2018, the Group Value of Production (VoP) grew by 54% yoy to €23.3mln. Semiconductors represent the majority of sales with an average weight of 85% over the 2016-2018 period, while the rest is made by ECU (Electronic Central Unit) and I&D (Industrial and Defence). In our estimates, we project a 14% Value of Production CAGR (2018-2022E) for the Group to reach €39mln. In 2022E we estimate EBITDA of €9.8mln (25% margin), €3.7mln Net income and a Net cash of about €6mln. The business plan execution risk is partially limited by a shareholders lock up period of 36 months after the listing.

SWOT Analysis

Strengths

- High innovation capability (RETE Approach)
- Sophisticated IP Libraries (Entry barriers)
- Zero Defect Reliability as a requirement
- Highly educated personnel
- Flexible cost structure

Weaknesses

- High customer concentration
- Geographic presence not yet sufficient
- Level of managerialization can be enhanced
- Commercial structure to be reinforced

Opportunities

- Automotive and Semiconductor macrotrend (Requirement Zero Defect)
- M&A opportunities in US and Asia
- New materials and technologies for semiconductors (need for reliability test)
- Scalable & replicable offer

Threats

- Geopolitical factors such as trade war
- Sector consolidation
- Resistance to innovation from semiconductor companies
- Alternative products

Main catalysts

- 👍 M&A deals to enter new geographies and new market niches
- Quicker or higher margins improvement driven by NWC optimization
- Stronger than expected revenue boost coming from autonomous driving macrotrend

Main risks

- 👎 Rising price competition from international semiconductor testing players
- Less than expected growth of foreign markets
- Loss of control over NWC during internationalization



Eles "ID Card"

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Recommendation

BUY

Target Price

6.45 €

Upside

21%

Main Financials

(€ mln)	2017	2018	2019E	2020E	2021E
Revenues	14.2	22.2	17.2	22.1	30.1
yoy change		56.6%	-22.2%	28.2%	36.3%
EBITDA	2.8	3.8	3.0	4.3	6.7
yoy change		35.2%	-21.0%	44.1%	54.8%
margin (%)	19.7%	17.0%	17.3%	19.5%	22.1%
EBIT	0.6	1.5	1.2	1.8	3.5
margin (%)	4.3%	6.6%	7.1%	7.9%	11.6%
EBT	0.4	1.2	0.8	1.6	3.4
margin (%)	2.5%	5.6%	4.8%	7.1%	11.3%
Net income	0.2	0.8	0.5	1.0	2.1
margin (%)	1.3%	3.4%	2.9%	4.3%	6.9%
Net Debt (cash)	6.6	4.9	1.0	1.3	(0.4)
Shareholders Equity	5.8	6.5	12.2	13.2	15.2
Operating Net Working Capital	4.8	5.2	6.3	6.6	7.8
Fixed assets	9.6	8.3	8.8	10.2	10.0
Net invested capital	12.3	11.4	13.2	14.4	14.9
Operating Free Cash Flow	2.6	3.2	2.6	3.6	5.3
Capex and acquisitions	(0.9)	(0.7)	(2.2)	(3.9)	(2.9)
Free Cash Flow	0.4	2.2	(0.9)	(0.2)	1.8

Company Description

Company Sector	Semiconductor testing
Price (€)	5.34
Number of shares (mln)	11.157
Market Cap (€mln)	59.6
Reference Index	FTSE AIM Italia
Main Shareholders	Zaffarami's family
Main Shareholder stake	59%
Free Float	41%
Average Daily Volumes ('000)	91.2
Sample of comparables	Aehr Test Systems, Advantest, Chroma ATE, Cohu, Teradyne.

Costs and business scalability analysis

	2017	2018	2019E	2020E	2021E
Operative costs					
Total operative costs	(12.4)	(19.5)	(14.6)	(18.1)	(23.8)
of which variable	70.0%	75.0%	73.8%	74.8%	76.3%
of which fixed	30.0%	25.0%	26.2%	25.2%	23.7%
% on sales	87.2%	88.1%	84.6%	82.0%	79.0%
Most relevant costs					
Raw materials	(6.0)	(10.1)	(7.6)	(9.6)	(12.8)
% on sales	42.5%	45.6%	44.1%	43.6%	42.6%
Labor costs	(3.4)	(4.4)	(3.5)	(4.3)	(5.3)
% on sales	23.9%	20.0%	20.4%	19.3%	17.7%

Solvability ratios

	2017	2018	2019E	2020E	2021E
Net debt (cash) / EBITDA	2.4x	1.3x	0.3x	0.3x	-0.1x
Net debt (cash) / Equity	1.1x	0.7x	0.1x	0.1x	0.0x
Net debt (cash) / Net Invested Capital	53.3%	42.6%	7.2%	8.9%	-2.4%

Financial and Operative ratios

	2017	2018	2019E	2020E	2021E
Days of receivables	117	79	95	90	75
Days of payables	132	90	85	85	70
Inventories on sales	21.7%	17.1%	22.5%	16.5%	14.5%
Tax rate	47.4%	38.7%	38.7%	38.7%	38.7%
ROIC	1.5%	6.6%	3.9%	6.6%	14.0%
ROE	3.2%	11.5%	4.2%	7.3%	13.6%
Capex/Sales	6.4%	3.2%	12.7%	17.6%	9.6%
D&A to capex	238.0%	308.5%	78.0%	63.9%	106.1%
NWC to sales	34.0%	23.5%	36.5%	29.7%	25.9%

Source: Bloomberg, Banca Profilo estimates and elaborations

Fixtures manufacturing: data of peers

	2018	2019E	2020E
Revenue Growth (yoy)	14.7%	3.6%	15.7%
EBITDA margin	19.6%	20.7%	23.4%
Net Debt / Equity		0.1x	

Average data

Fixtures manufacturing: multiples of peers

	2019E	2020E
EV / Sales	3.6x	3.2x
EV / EBITDA	19.8x	15.4x

Average data

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ADDITIONAL INFORMATION

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