

ELES

OUTPERFORM

Price (Eu):

4.47

Target Price (Eu):

5.80

SECTOR: Industrials

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Putting Innovation To The Test; TP update to reflect warrant distribution

- **A semiconductor testing company...** Founded in 1988, ELES operates in the testing system industry for integrated circuits. The company offers a solution consisting of an internally-developed and assembled modular testing machine and more stable and visible support activities (66%/34% of turnover respectively). The business has an international footprint: 68% is in EMEA, 30% in APAC and 2% in USA. Clients belong to the semiconductor value chain (93% of turnover), while 7% of turnover comes from ECU suppliers. Customer concentration is high, as the top 3 clients represent ~85% of turnover. In 2018, ELES revenue was €22.6mn with a 17% EBITDA margin, while NFP was neutral at 1H19.
- **...with an innovative approach.** Chips are fundamental in any digital environment. Their pervasiveness in a vast range of functions, including security-critical applications, means the testing phase is increasingly crucial, as chip faults can no longer be tolerated (see the Boeing 737 Max situation). Thanks to its 30 years of experience, ELES's innovative solutions allow client companies to improve chip reliability and also accelerate the time-to-market for products at a lower total test cost than is the case through traditional testing. These solutions are offered under the R.E.T.E. approach developed by the company in 2015 and involve co-engineering activity with clients with the aim of hitting enhanced "zero defect" targets for products (i.e. <0.01ppm vs. the 1ppm standard in traditional tests).
- **ELES's ambitious business plan targets.** On 27th November 2019, the company presented a business plan to 2022 targeting aggressive sales growth with margin improvements enabled by its innovative product offer. Organically, ELES plans to grow internationally, both through existing and new customers, as well as to consolidate its position in the testing market for ECU. M&A is seen principally as a way of accelerating customer acquisition, and secondly as a method for enhancing the technological offer. After the ~22% YoY drop forecast to have taken place in 2019 due to the industry downturn (global semiconductor sales are expected to have fallen 13% YoY), ELES expects growth to resume, with a 2019-22 turnover CAGR of 35% and EBITDA going from €3.0mn (17% margin) to €13.0mn (31% margin).
- **Our estimates.** Our forecasts are essentially aligned with the company's indications for 2019, whereas we are slightly more conservative on the years to come. While we are convinced of ELES's potential, our projections try to factor in cyclical fluctuations in a rapidly changing environment and execution risk. We have also incorporated more prudent margin expansion assumptions. All in all, we forecast a 30% turnover CAGR from 2019 to 2022, when we expect EBITDA to reach €9.4mn, corresponding to a 24% margin on sales.
- **New coverage update: OUTPERFORM; target updated to €5.8.** With this note, we are updating the TP published in the note initiating our coverage of the stock on 8th January to reflect the warrant distribution on 13th January. Consequently, while our analysis, forecasts, valuation method and investment conclusions remain unchanged, our target price goes to €5.8 as we amend the number of fully-diluted shares for the newly-issued warrants still considering the cash-in resulting from their future expected exercise. While 2019 should have closed with a notable drop in turnover, we expect this to be a temporary blip as ELES should achieve meaningful future growth and margin expansion thanks to its innovative R.E.T.E offering. ELES's solutions offer superior testing results and cost effectiveness, which should allow the company to intercept the rising demand for chip reliability.

Key Figures	2017A	2018A	2019E	2020E	2021E
Sales (Eu mn)	14	23	18	22	30
Ebitda (Eu mn)	3	4	3	4	6
Net profit (Eu mn)	0	1	0	1	2
EPS - New Adj.(Eu)	0.017	0.068	0.053	0.083	0.199
EPS - Old Adj.(Eu)					
DPS (Eu)	0.000	0.000	0.000	0.000	0.000
Ratios & Multiples	2017A	2018A	2019E	2020E	2021E
P/E Adj.	nm	66.1	84.2	53.8	22.4
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Ebitda Adj.	20.2	14.5	17.2	12.6	7.5
ROCE	5.0%	12.3%	8.0%	12.3%	25.5%

ELES SEMICONDUCTORS - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): from 6.60 to 5.80

Ch. in Adj.EPS est: 2019E 2020E

STOCK DATA

Reuters code: ELES.MI
Bloomberg code: ELES IM

Performance	1m	3m	12m
Absolute	-4.0%	-4.7%	n.a
Relative	+13.0%	+4.7%	n.a
12 months H/L:	6.00/3.79		

SHAREHOLDER DATA

No. of Ord. shares (mn):	11
Total No. of shares (mn):	11
Mkt Cap Ord (Eu mn):	50
Total Mkt Cap (Eu mn):	50
Mkt Float - ord (Eu mn):	23
Mkt Float (in %):	45.4%
Main shareholder:	
A. Zaffarami	37.8%

BALANCE SHEET DATA

	2020
Book value (Eu mn):	14
BVPS (Eu):	1.24
P/BV:	3.6
Net Financial Position (Eu mn):	0
Enterprise value (Eu mn):	50

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ELES SEMICONDUCTORS - KEY FIGURES

		2017A	2018A	2019E	2020E	2021E
	Fiscal year end	31/12/2017	31/12/2018	31/12/2019	31/12/2020	31/12/2021
PROFIT & LOSS (Eu mn)	Sales	14	23	18	22	30
	EBITDA	3	4	3	4	6
	EBIT	1	1	1	2	4
	Financial income (charges)	(0)	(0)	(0)	(0)	(0)
	Associates & Others					
	Pre-tax profit (Loss)	0	1	1	1	3
	Taxes	(0)	(0)	(0)	(0)	(1)
	Tax rate (%)	47.3%	38.7%	35.0%	35.0%	35.0%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	0	1	0	1	2
	Total extraordinary items	0	0	(0)	0	0
	Ebitda excl. extraordinary items	3	4	3	4	6
PER SHARE DATA (Eu)	Ebit excl. extraordinary items	1	1	1	2	4
	Net profit restated	0	1	1	1	2
	Total shares out (mn) - average fd	11	11	11	11	11
	EPS stated fd	0.017	0.068	0.038	0.083	0.199
	EPS restated fd	0.017	0.068	0.053	0.083	0.199
	BVPS fd	0.516	0.586	1.162	1.245	1.444
	Dividend per share (ord)	0.000	0.000	0.000	0.000	0.000
CASH FLOW (Eu mn)	Dividend per share (sav)					
	Dividend pay out ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
	Gross cash flow	2	3	2	3	5
	Change in NWC	(2)	(0)	(0)	1	(1)
	Capital expenditure	(1)	(1)	(2)	(3)	(3)
	Other cash items	(0)	0	0	0	0
	Free cash flow (FCF)	(0)	2	(0)	0	1
	Acquisitions, divestments & others	0	0	0	0	0
BALANCE SHEET (Eu mn)	Dividend	0	0	0	0	0
	Equity financing/Buy-back	0	0	6	0	0
	Change in Net Financial Position	(0)	2	5	0	1
	Total fixed assets	10	8	10	11	11
	Net working capital	4	5	5	4	6
	Long term liabilities	1	2	2	2	2
	Net capital employed	12	11	13	14	15
	Net financial position	(7)	(5)	0	0	1
ENTERPRISE VALUE (Eu mn)	Group equity	6	7	13	14	16
	Minorities	0	0	0	0	0
	Net equity	6	7	13	14	16
	Average mkt cap - current	50	50	50	50	50
RATIOS(%)	Adjustments (associate & minorities)	0	0	0	0	0
	Net financial position	(7)	(5)	0	0	1
	Enterprise value	56	55	50	50	49
	EBITDA margin*	19.4%	16.7%	16.3%	17.7%	21.3%
GROWTH RATES (%)	EBIT margin*	4.2%	6.5%	4.5%	7.3%	11.9%
	Gearing - Debt/equity	114.9%	74.5%	-0.6%	-2.6%	-8.0%
	Interest cover on EBIT	2.8	6.7	6.3	8.2	18.6
	Debt/Ebitda	2.36	1.29	nm	nm	nm
	ROCE*	5.0%	12.3%	8.0%	12.3%	25.5%
	ROE*	3.3%	12.3%	4.3%	6.9%	14.8%
	EV/CE	4.7	4.6	4.1	3.8	3.4
	EV/Sales	3.9	2.4	2.8	2.2	1.6
	EV/Ebit	nm	37.3	nm	30.5	13.4
	Free Cash Flow Yield	-0.5%	3.2%	-0.3%	0.6%	1.9%
	Sales	15.3%	57.0%	-21.7%	25.6%	36.9%
	EBITDA*	12.7%	35.2%	-23.6%	36.3%	64.5%
	EBIT*	46.6%	142.7%	-45.5%	103.1%	122.6%
	Net profit	675.0%	305.4%	-44.4%	121.3%	139.8%
	EPS restated	nm	305.4%	-21.5%	56.6%	139.9%

* Excluding extraordinary items

Source: Intermonte SIM estimates

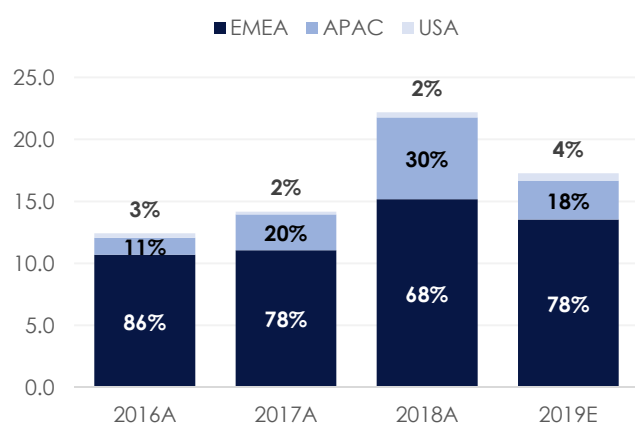
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Executive Summary

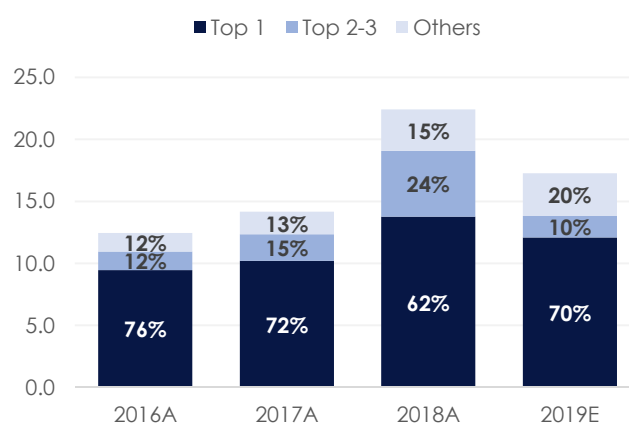
A semiconductor testing solutions provider. Founded in 1988, Eles Semiconductor (Ticker: ELES) operates in the business of testing systems for Integrated Circuits (simply "chips"). The company offers a solution consisting of a modular testing machine that it designs and assembles (Test System, 66% of turnover in 2018) and more stable and visible support activities, namely providing consumables for the testing phase, co-engineering services, the sharing of software libraries and technical assistance (Test Application, 34% of turnover in 2018). The business has an international footprint: 68% is in EMEA, 30% in APAC and 2% in USA. Clients belong to the semiconductor value chain (93% of turnover), while a 7% is made with ECU suppliers. Customer concentration is high as the top 3 clients represents ~85% of turnover.

Net sales breakdown by geographical area (€ mn, 2016A-19E)



Source: company data and Intermonte SIM estimate

Net sales concentration (€ mn, 2016A-19E)



Source: company data and Intermonte

ELES's ambitious business plan targets. On 27th November 2019, the company presented a business plan to 2022 targeting aggressive sales growth with margin improvements enabled by its innovative product offer. Organically, ELES plans to grow internationally, both through existing and new customers, as well as to consolidate its position in the testing market for ECU. M&A is seen principally as a way of accelerating customer acquisition, and secondly as a method for enhancing the technological offer. After the ~22% YoY drop forecast to have taken place in 2019 due to the industry downturn (global semiconductor sales are expected to have fallen 13% YoY), ELES expects growth to resume, with a 2019-22 turnover CAGR of 35% and EBITDA going from €3.0mn (17% margin) to €13.0mn (31% margin).

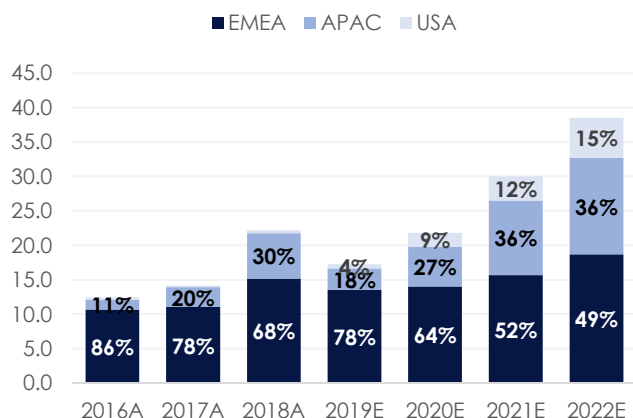
ELES Business Plan Targets – Income statement

	2016A	2017A	2018A	2019 BP	2020 BP	2021 BP	2022 BP	CAGR 18A-22E	CAGR 19E-22E
Net sales	12.4	14.2	22.2	17.3	24.2	32.8	42.2	+17%	+35%
YoY growth		+14%	+57%	-22%	+40%	+36%	+29%		
Adj. EBITDA	2.5	2.8	3.8	3.0	4.8	8.2	13.0	+36%	+63%
YoY growth		+13%	+35%	-20%	+59%	+72%	+58%		
Adj. EBITDA margin %	20.0%	19.7%	17.0%	17.4%	19.7%	25.0%	30.9%		
Adj. EBIT	0.4	0.6	1.5	1.1	2.8	5.9	10.4	+63%	+110%
YoY growth		+47%	+143%	-24%	+152%	+108%	+77%		
Adj. EBIT margin %	3.3%	4.3%	6.6%	6.5%	11.6%	17.8%	24.5%		
Net profit	0.0	0.2	0.8	0.4	1.6	3.8	7.1	+75%	+156%
YoY growth		+675%	+305%	-44%	+279%	+139%	+85%		
Net profit margin %	0.2%	1.3%	3.4%	2.4%	6.6%	11.7%	16.8%		

Source: company presentation

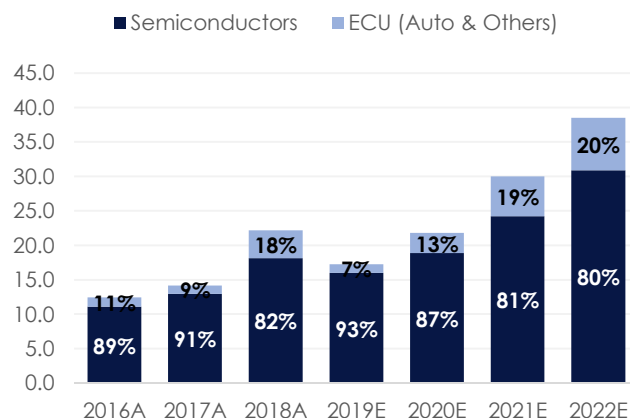
Our estimates. Our forecasts are essentially aligned with the company's indications for 2019, whereas we are slightly more conservative on the years to come. While we are convinced of ELES's potential, our projections try to factor in cyclical fluctuations in a rapidly changing environment. We have also incorporated more prudent margin expansion assumptions. All in all, we forecast a 30% turnover CAGR from 2019 to 2022, when we expect EBITDA to reach €9.4mn, corresponding to a 24% margin on sales.

Net sales breakdown by geographical area (€ mn, 2016A-22E)



Source: company data and Intermonte SIM estimates

Net sales breakdown by business (€ mn, 2016A-22E)



Source: company data and Intermonte SIM estimates

Intermonte Estimates – Income statement

	2016A	2017A	2018A	2019E	2020E	2021E	2022E	CAGR 2018A-22E	CAGR 2019E-22E
Revenue	12.5	14.4	22.6	17.7	22.2	30.4	38.9	+15%	+30%
YoY growth		+15%	+57%	-22%	+26%	+37%	+28%		
Adj. EBITDA	2.5	2.8	3.8	2.9	3.9	6.5	9.4	+26%	+48%
YoY growth		+13%	+35%	-24%	+36%	+65%	+46%		
Adj. EBITDA margin %	19.9%	19.4%	16.7%	16.3%	17.7%	21.3%	24.3%		
Adj. EBIT	0.4	0.6	1.5	1.0	1.6	3.6	6.2	+43%	+85%
YoY growth		+47%	+143%	-34%	+67%	+123%	+71%		
Adj. EBIT margin %	3.3%	4.2%	6.5%	5.5%	7.3%	11.9%	15.9%		
Net income	0.0	0.2	0.8	0.4	0.9	2.2	3.9	+51%	+110%
YoY growth		+675%	+305%	-44%	+121%	+140%	+75%		
Net income margin %	0.2%	1.3%	3.3%	2.4%	4.2%	7.3%	10.0%		

Source: company data and Intermonte SIM estimates

Valuation. We are initiating coverage of ELES with an OUTPERFORM rating and a cum-warrant fully-diluted DCF-based and scenario-weighted TP of €6.6 (ex-warrant as of 13th January). While 2019 should have closed with a notable drop in turnover, we expect this to be a temporary blip as ELES should achieve meaningful future growth and margin expansion thanks to its innovative R.E.T.E offering. ELES's solutions offer superior testing results and cost effectiveness, which should allow the company to intercept the rising demand for chip reliability.

Valuation summary (Euro per share)

	Fair value per share	Probability	Fair value weighted
Base case @ our estimate	5.0	70%	3.5
Bull case @ company's BP targets	7.8	30%	2.3
Target price			5.8
Actual share price			4.5
Upside/(Downside)			30%

Source: Intermonte SIM

Company Presentation

The company at a glance and key figures

What does the company do? Founded in 1988 in Todi near Perugia (Italy) by the current company President Antonio Zaffarami, Eles Semiconductor (Ticker: ELES) operates in the business of testing systems for Integrated Circuits (ICs or simply "chips"), offering testing solutions for microelectronics components. The solutions provided to its clients consist of a modular testing machine that the company designs and assembles (Test System, 66% of turnover in 2018) and more stable and visible support activities, namely providing consumables for the testing phase, co-engineering services, the sharing of software libraries and technical assistance (Test Application, 34% of turnover in 2018).

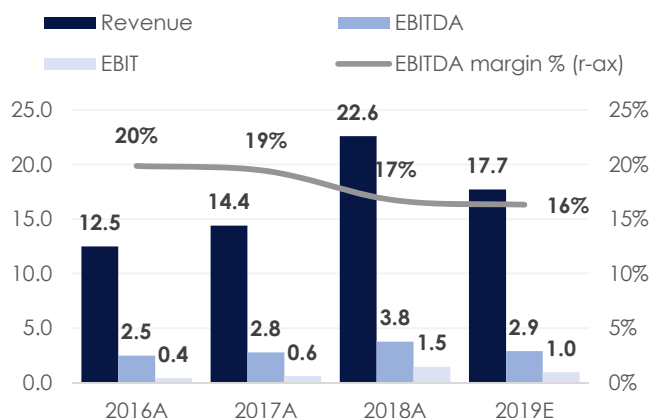
What are the company's key financial trends? The company closed 2018 with turnover of €22.6mn and EBITDA/EBIT margins of 16.7%/ 6.5% respectively, essentially doubling in size since 2016. This demonstrates the market traction of the revamped offering it launched in 2015. Without going into detail at this stage, we also highlight that 2019 should have closed with a slowdown in turnover to the tune of -22% vs. 2018, as various clients have delayed projects by several months as a result of adjustments to CapEx plans in response to the industry downturn (Global Semiconductor sales are expected -13% in 2019, but the burn-in test market is seen down 64% YoY). However, this negative revenue trend is expected to promptly reverse in 2020.

Where does the company do business? From a geographical point of view, the continental turnover split reflects the global nature of the semiconductor industry, while also demonstrating the company's ability to expand overseas. EMEA is the largest macro region for the company, 68% of turnover in 2018, followed by APAC at 30% and the USA at 2%. International expansion is a key driver of the industrial plan, which we will analyse later in this report.

Who are the company's clients? Its customers are mainly semiconductors companies that carry out their own development activities and most of the manufacturing process (so called IDMs or Integrated Device Manufacturers), and also Fabless and Test & Assembly companies, the combination of which represents 93% of ELES's 2019 revenue base. In 2015 the company identified a growth opportunity in marketing its solutions to Electronic Control Unit (ECU) Suppliers, and this type of customer accounts for around 7% of turnover. However, we highlight the high customer concentration, as 62% of turnover is generated by the main client, while the top 3 represent 86%.

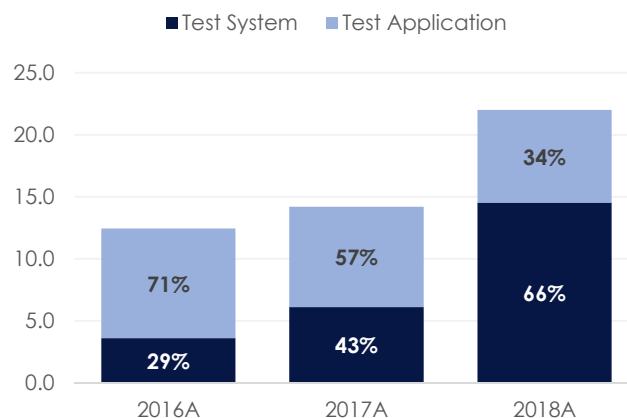
Who are the company's employees? As the company is mainly involved in the design of the test machine, technical assistance, and co-engineering services with limited capital intensity given the company has no production sites and just one assembly site, its employees are mainly engineers with a strong academic and technical background. The ability to attract and retain talent will be key, and the company's growth will play a part in this.

Revenue, EBITDA, EBIT and EBITDA margin (€ mn, 2016A-19E)

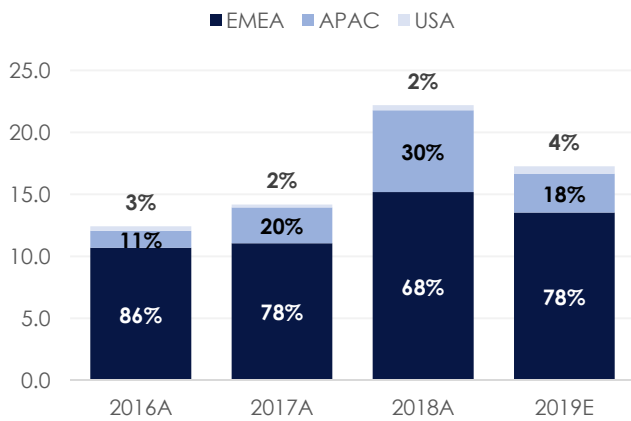


Source: company data and Intermonte SIM estimate

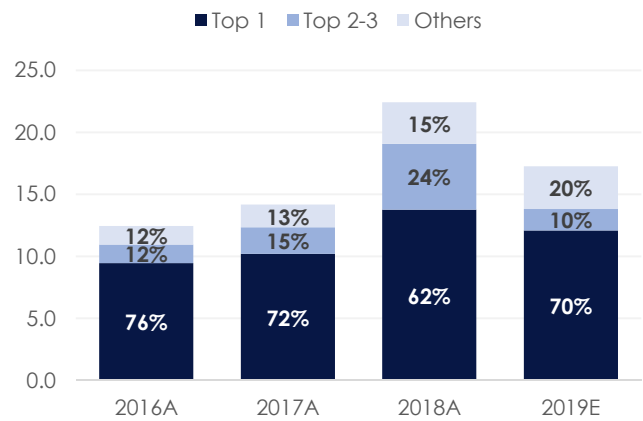
Net sales breakdown by product/service line (€ mn, 2016A-18A)



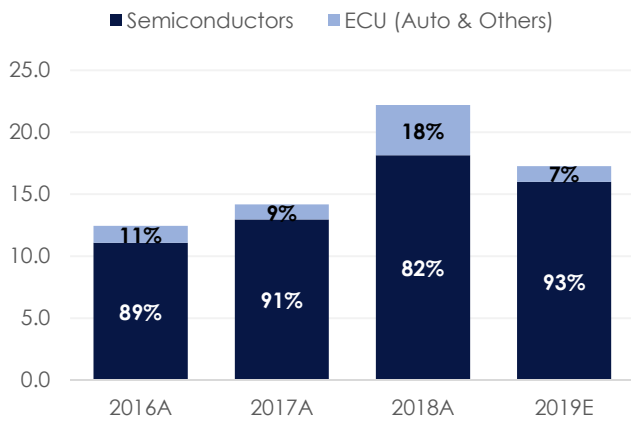
Source: company data

Net sales breakdown by geographical area (€ mn, 2016A-19E)

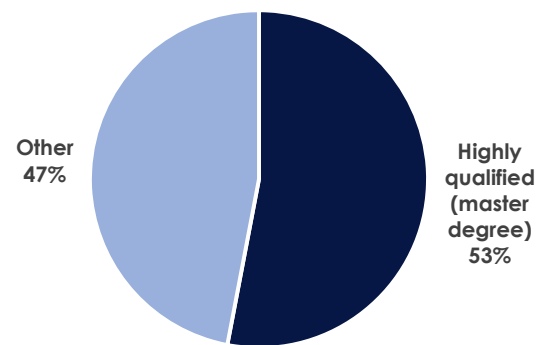
Source: company data and Intermonte SIM estimate

Net sales concentration (€ mn, 2016A-19E)

Source: company data and Intermonte

Net sales breakdown by business (€ mn, 2016A-19E)

Source: company data and Intermonte SIM estimate

Employee breakdown by qualification (2018A)

Source: company data

History: from a local systems supplier to an international solutions provider

The company was **founded in 1988 by Antonio Zaffarami**, the current President and main shareholder. **Originally**, the company operated as a supplier of testing machines with a business model built on being a **product provider** rather than on partnering client companies in the development of new hardware and software solutions.

Right from the outset the company distinguished itself by not only **offering test systems but also associated services** (cd Test Application) for the realisation of tests on a specific semiconductor device. This has allowed the company to accumulate immense expertise on the market's testing needs, to understand and anticipate trends and to develop the necessary solutions to address them.

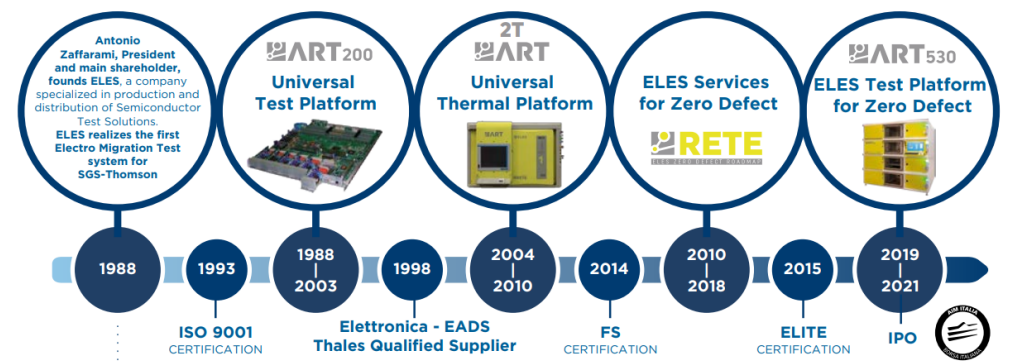
In 2002 this enabled the company to **launch the ART 200 Test Platform**. This could be seen as a quantum leap for ELES, as ART 200 was the first internally-developed testing machine featuring two essential characteristics of the company's current offering and selling proposition: a modular hardware platform able to test different chips plus dedicated software libraries.

The **company expanded abroad** in 2005 by establishing two commercial branches, one in Silicon Valley in the United States and the other in Singapore. In the meantime, the **commercial offering was periodically upgraded** through the launch of new testing platforms featuring enhanced testing performance and capabilities. Furthermore the company also decided to develop the thermal platform internally, and through the acquisition of the major supplier it integrated the expertise to design and develop an end-to-end solution, which **was launched in 2010 (2T ART)**. This gave the company a greater competitive advantage, considering that both electrical and thermal stress tests are key elements of the testing process.

In 2015, ELES launched R.E.T.E. innovating its approach to semiconductor testing based on co-engineering activity with its clients with the aim of providing the input and feedback that enables products to deliver a "zero defects" result. This new approach led to ELES developing and launching its latest testing machine, the ART 530, in 2018.

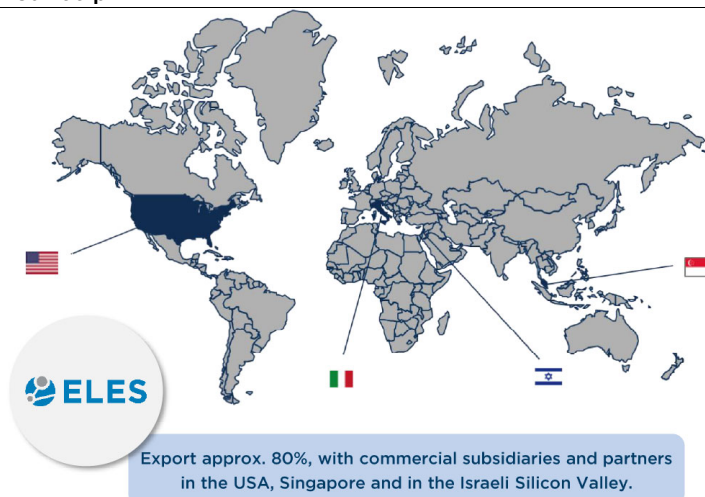
Finally, the **company listed on the AIM Italia on 19th June 2019**, gathering around €6.0mn to support growth and expansion.

ELES key history development



Source: company presentation

ELES geographical footprint



Source: company presentation

Liquidity and share price

As indicated in the previous paragraph, the company listed on the AIM Italia on 19th June at a price of €1.90 per share. At its IPO, the company offered €6.0mn worth of new shares in order to finance its growth and expansion, with no secondary offering made.

The stock has performed very well, and is currently trading 167% higher (including the warrant distribution), a level essentially reached on the day of the IPO. Excluding the volumes traded in the first week, the average stock turnover is €327k with 75k shares exchanged every day.

ELES' share price and stock liquidity since IPO



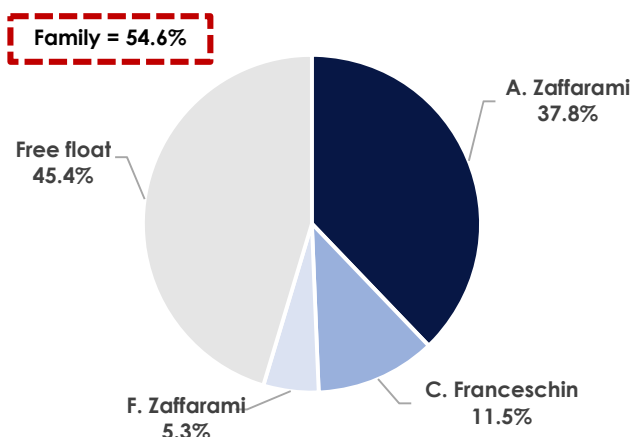
Source: Intermonte SIM on FactSet data

Shareholder structure and voting rights

The company has around 11.2mn shares, of which 54.6% are owned by members of the controlling Zaffarami family. The family is represented by Company President Antonio Zaffarami (37.8% stake), Carla Franceschin (11.5%), who has no operating role within the company, and their daughter and CEO Francesca Zaffarami (5.3%). Nevertheless, they collectively own 59.0% of the total voting rights in light of the double voting rights attributed to Francesca Zaffarami.

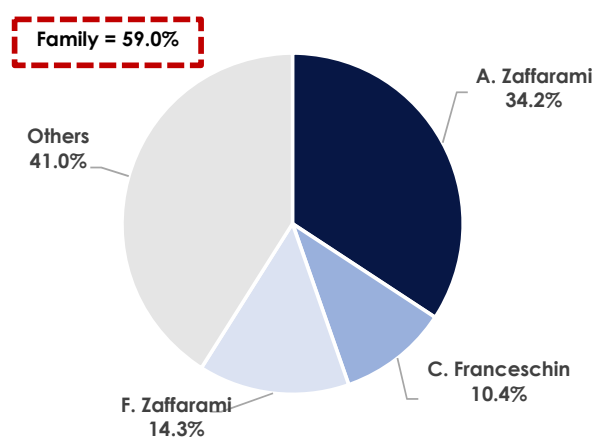
The free float stands at 45.4%, a level that qualifies the company for a switch to the MTA.

Shareholder structure



Source: company data

Voting rights



Source: company data

Warrants

During the IPO, the company approved a Warrant plan. The plan foresaw the emission of a total 11.2mn warrants, which provide the right to be assigned 0.5 newly-issued ordinary ELES shares (1 share every two 2 warrants) at a strike price of €2.0. The exercise periods are each July and November from 2020 to July 2024. The strike price will be increased by 2.5% (~€0.05 per share) each year.

The warrants have the same characteristics, but are awarded on two distinct occasions:

- Half of them (5.6mn) were awarded at the time of the IPO;
- The remainder are incorporated in the shares and have been assigned to shareholders on 13th January 2020.

As the stock price ex-warrant is currently well above this strike price, the warrants are deep-in-the-money, bearing some dilution for those investing only in ELES shares with no intention of purchasing and exercising warrants, although this is partly offset by the cash-in from the warrant exercise.

Our valuation takes into account the fully diluted number of shares resulting from the warrant conversion as well as the cash-in from the warrant exercise.

Warrant table dilution

	Warrant IPO	Warrant 13th Jan. 2020	Total
Warrants needed to have 1 share	2	2	2
Number of warrants (mn)	5.6	5.6	11.2
New shares from warrants (mn)	2.8	2.8	5.6
Current number of shares (mn)			11.2
Total number of shares post warrant exercise (mn)			16.7
Dilution (% increase in # shares)			50.0%
Strike price warrant (€) - Year 2020	2.00	2.00	2.00
Current share price (€)	4.47	4.47	4.47
In the money?	Yes	Yes	Yes
Cash-in (€ mn)	5.6	5.6	11.2

Source: Intermonte SIM estimate

Management team



Antonio Zaffarami, Founder and Chairman.

- In 1972 gained a Diploma from the Terni Istituto Tecnico Statale Industriale, specialising in electronics;
- Design technician at ESCO Electronics di Todi (PG); subsequently a partner and Director of the company;
- In 1977 started to work at ITELCO in Orvieto, a company active in the production of radio broadcasting equipment, as head of the technical and production division.
- Founded ELES Electronic Engineering Services di Zaffarami Antonio e C s.n.c., in 1978, developing a series of digital indicators sold both in Italy (Alfa Romeo, Sime Brondi) and abroad;
- Formed the Issuer in 1990 as ELES Equipment S.r.l., subsequently transforming it into an S.p.A in 2000. Was responsible for business and technical functions, with a particular focus on innovation, including covering the role of Head of Research & Development.



Francesca Zaffarami, CEO.

- Having graduated in Electronic Engineering from the University of Perugia, in 2003 she started to work with the Issuer as an application engineer;
- Between 2004 and 2006 participated in the company's "Wafer Level Burn In" research and development project, assisted by the Catania Research Lab, then becoming a project manager for digitalisation and research projects for the issuer;
- After gaining an EMBA from LUISS Guido Carli University in Rome in 2009, continued working at the company, covering the roles of Controller and Assistant COO between 2008 and 2014;
- Chief Executive Officer and Vice Chairman since 2016.



Roberto Scappito (CFO)

- (1992-1998) Graduated in economics from the University of Perugia with an MSc in business administration
- (1998-2000) EMBA at Centro Formazione Imprenditoriale (AsFor – Perugia)
- (2012-2012) SdA Bocconi School of Management (Milano)
- (2001-2008) Group Management Control Manager – Emicom Group (Perugia)
- (2008-2016) Administration and Management Control Manager – Aria SpA (Milano)
- (2016-2019) Group Management Control Manager – Tiscali SpA (Cagliari)
- (2019-Actual) Chief Financial Officer – ELES SpA – (Todi – PG)



Andrea Lucaroni

- MSC in Electronic Engineering from Perugia University
- Master in Economics & Telco from MIB School of Management (Trieste)
- 2003-2007 Sales Manager at SICOM TEST (Trieste)
- 2007-2009 Procurement Engineering at ELES
- 2009-present Key Account Manager at ELES

Business Model Description

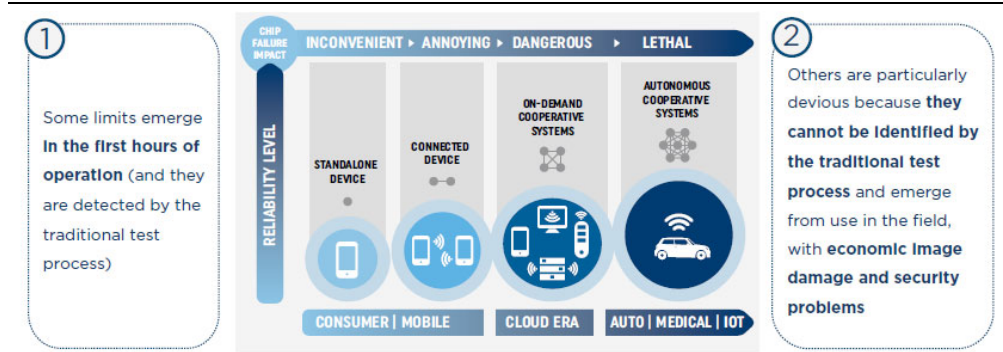
Business model

What needs does ELES's offering meet? Before analysing ELES's offering, we believe it is necessary to understand the business needs of the company's clients. The "testing" phase is critical in the process that transforms an inert crystalline material into a chip that allows electronic devices to perform the required tasks. In particular, the testing phase is responsible for identifying chips that, if embedded in devices later sold on the market, would trigger the failure of the device itself as a result of manufacturing rather than design flaws. A chip failure, mostly in security and mission-critical applications, has negative repercussions on the success of the products as well as the reputation of the company that brought them to market.

Client companies are therefore highly motivated to minimise chip failure/maximise chip reliability, with benefits not only coming in the form of greater market traction, but also from lower costs, as testing represents a high-cost phase of the go-to-market process. This is especially true as chips are constantly becoming more complex, leading semiconductor companies to become increasingly concerned about chip reliability.

Is there any evidence of this need? An appropriate example is the recent saga surrounding the Boeing 737 MAX. Investigators found that the Lion Air Boeing 737 MAX accident in Indonesia on 29th October 2018, which caused 157 deaths, was due to the failure of a crucial sensor that had not been properly tested ([link here](#)).

Level of reliability needed by end-market application or by use cases

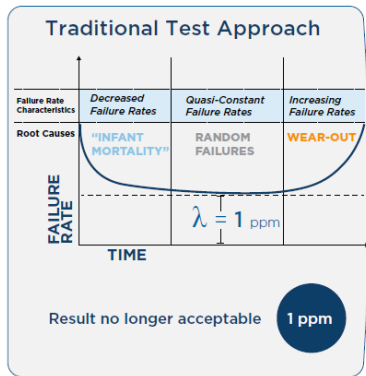


Source: company presentation

How is this need currently met? The testing phase is carried out through Automated Test Equipment (ATE) adopting a traditional functional testing approach. However, this approach has its limits, mostly in terms of test reach, resulting in reduced testing performance and consequently higher numbers of chip failures as well as higher costs.

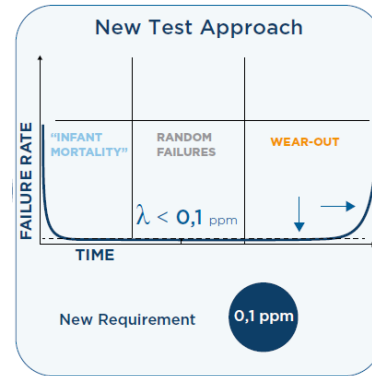
How does ELES address this need? ELES operates in testing systems for Integrated Circuits (ICs or simply "chips") by offering testing solutions for microelectronics components. The solutions provided to clients consist of a modular testing machine that the company designs and assembles (Test System, 66% of turnover in 2018) and more stable and visible support activities, namely consumables for the testing phase, co-engineering services, the sharing of software libraries and technical assistance (Test Application, 34% of turnover in 2018).

Testing results with Traditional Test Approach



Source: company presentation

Testing results with New Test Approach



Source: company presentation

What is ELES's approach? Thanks to its thirty years of experience in the sector working alongside major semiconductor producers, ELES is able to provide an innovative solution, namely Test During Burn-In (TDBI). Compared to the traditional approach, this allows clients not only to improve the reliability of chips, but also to accelerate the time-to-market and reduce overall testing costs (by 70% in some cases). The final aspect is achieved through lower material usage and power consumption, aspects of ever-increasing importance. The two images above provide a straightforward comparison between the results in terms of testing performance obtained by a traditional approach and the new test approach used in ELES's solutions.

ELES innovative approach to semiconductor testing

DESIGN LEVEL TEST EMBEDDED APPROACH

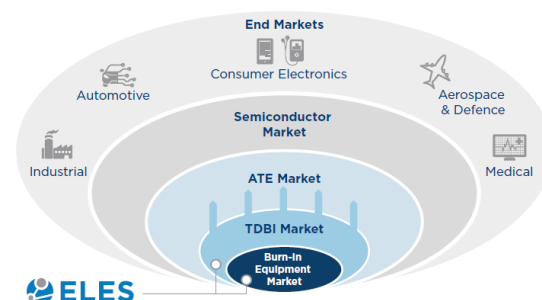


Source: company presentation

ELES R.E.T.E. approach

TDBI results:

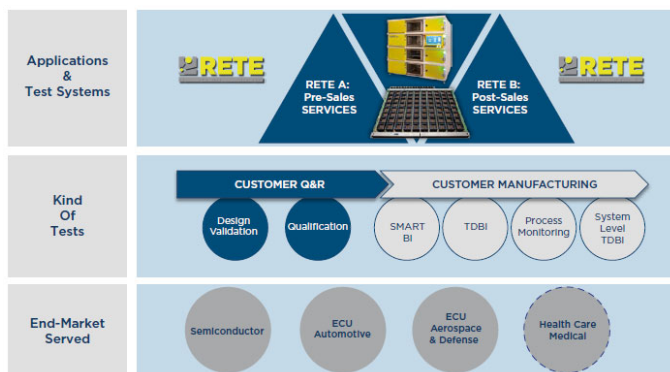
- TDBI substituting ATE Test, reduce test costs and support device complexity
- Reliability can reach 0,1 ppm failure rate
- Time to market reduction



Source: company presentation

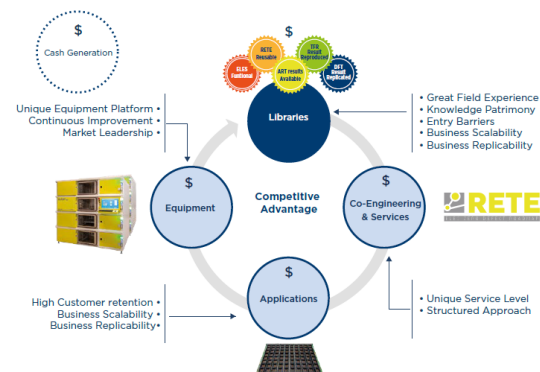
What are the core elements of ELES's offering? The solutions are provided under the R.E.T.E. approach launched by the company in 2015, which is characterised by co-engineering activity with clients with the aim of providing the input and feedback that enables products to deliver a "zero defects" result. Obviously, this requires a strong collaboration between ELES and its clients, enhancing customer retention without compromising the company's ability to design solutions for the market. For this reason, and also in light of its long standing in the industry, ELES has a strong visibility all along the customer's roadmap as it accelerates go-to-market timing.

ELES customer approach (1/2)



Source: company presentation

ELES R.E.T.E. approach (2/2)



Source: company presentation

Products

As we have already said, the solutions provided to clients consist of a modular testing machine that the company designs and assembles and more stable and visible support activities, namely consumables for the testing phase, co-engineering services, sharing of software libraries and technical assistance.

The ART platform lies at the heart of ELES's offering. This modular testing machine platform is able to perform thermal stress, electrical stress and electrical testing. The main product strengths are:

- **Versatility.** The machine can be configured through different libraries allowing it to test different types of chips from System on Chip (SOC), Micro Electro-Mechanical Systems (MEMS) and Memories;
- **Scalability.** The machine can test a huge amount of chips during the same testing cycle, but its modular concept also allows more tests to be performed by simply plugging in new hardware.
- **Running cost advantages.** We also highlight that the latest ELES products allow clients to significantly reduce the total cost of testing by reducing power consumption, an increasingly important feature in a more environmentally-aware world.

On top of this hardware offering, the company has built a more stable and recurring suite of after-sales services:

- R.E.T.E. services, such as high value-added consulting, namely *design for testability* and *design for reliability*;
- Development of testing programs;
- Design and production of Test Boards;
- Update of software and libraries;
- Technical assistance for hardware;

ELES products

Product	Information	Example
ART 200 	Developed in 2002 Product designed to perform both Q&R and burn-in tests on a single platform ▪ 25K units/system for MEMS ▪ 6.1k unit/system for memories	
ART 530 	Leading company product ▪ Test During Burn In TDBI for SoC, ADAS and SoC ▪ Higher testing power ▪ Yield increase from 93% to 99% ▪ Higher operating efficiency ▪ Test Cost reduction of up to 50% for ADAS family ▪ Allowing a "zero defects" target of <0.1ppm	
ART 530 HP	New testing machine currently in final trial phase ▪ Evolution of the ART 530 ▪ Introduce Local Active Temperature Control thanks to patented liquid cooling systems ▪ Allowing the "zero defects" target to go from <0.1ppm to <0.01ppm	
Test Board	A printed circuit that represents the structure on which ICs are hosted during the test Boards are designed and built based on specific customer need Test Boards are one of the link of the Test Chain. ELES has developed a huge competence (materials, components, process qualification) on design and production of Test Boards, to guarantee namely "Zero Defects Compliant Design" of Test Boards.	

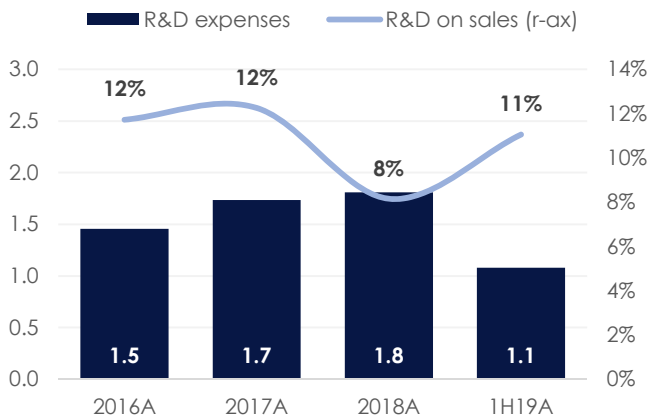
Source: company information

R&D activities

R&D is vital for innovation. For this reason, we highlight that ELES devotes 11% of its turnover to R&D projects, investing more than €15mn over the last 10 years. A team of 33 people (33% of its personnel) of which 76% have a master degree, is dedicated to this area. This has produced an extended IP library, i.e. the software needed by client companies in order to test their chips, and 4 proprietary trademarks.

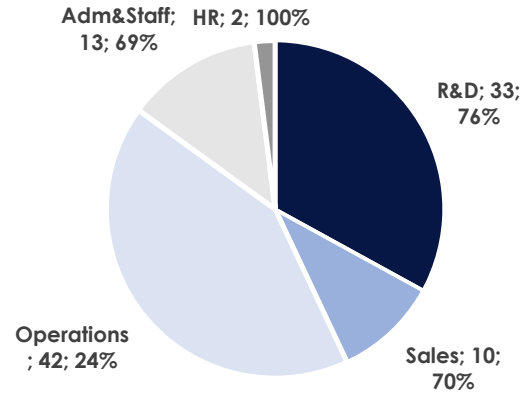
This activity is crucial not only to developing the next generation of test machines, but also to improving the company's intangible offering, such as new testing libraries that produce more stable and visible turnover.

R&D expenses (€ mn, 2016A-1H19A)



Source: company presentation

ELES's employees (2018, % refers to highly qualified employees)



Source: company presentation

Sales approach

Peter Thiel, one of the most famous Silicon Valley investors, wrote in his book "Zero to One" that "sales matters just as much as product", the polar opposite of the perceived wisdom in the technology industry that "if the product is good enough it will sell itself". With this sentence, our aim is to emphasise that while ELES boasts an innovative product offering, sales remains a critical success factor.

Beyond the technological innovation brought by the R.E.T.E. approach, the company improved its sales efforts by targeting clients with 10 highly specialist salespeople, 7 of whom hold a Master's degree.

Marketing and sales strategy is mainly carried out through participation in sector trade fairs and events, at which the company has its own exhibition stand. During these events, ELES managers hold conferences in which they outline the key features of group products.

Moreover, the Issuer organises workshops at laboratories in which demo tests are developed for third parties. During these workshops, the company has the opportunity to meet the test labs' clients, which represent potential future customers to which ELES can pitch the advantages of the RETE approach as well as the methodology behind the tests it delivers.

Operations

ELES is mainly involved in the design and assembly of its testing machine. The company doesn't carry out manufacturing activity, but takes advantage of an external supply chain for the production of the various components needed to build its machine.

For instance, the company buys refrigerator modules, steel cases and displays. Usually, each single component does not add significant value, but ELES is able to increase the value by aggregating the components into its machine. The company's suppliers are local component manufacturers as well as Asian companies from which the company mainly acquires the electrical parts of its testing machine.

Once ELES has bought all the different components, it integrates them into the final machine. The assembly process is broken down into 3 steps carried out in the ELES's assembly stations located in a building in the vicinity of company headquarters:

- Assembly of the physical and mechanical structure;
- Assembly of the refrigeration and heating systems;
- Wirings.

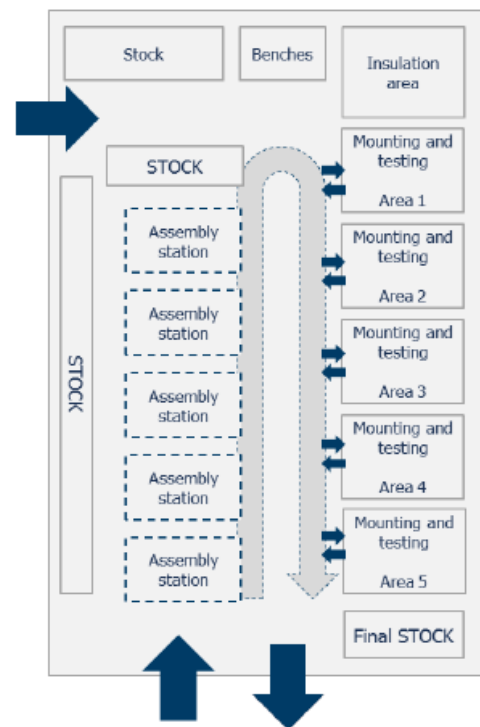
Thereafter, the machine is carried to the testing area for the final test before shipment to the customer.

ELES HQ and assembly building



Source: google.it image of December 2011

ELES assembly line scheme



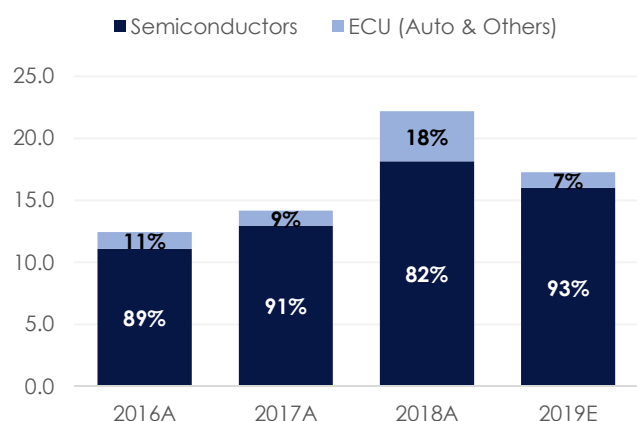
Source: company data

Clients

As outlined in our introduction, ELES mainly serves semiconductor producers (Integrated Device Manufacturers, IDMs), but also Fabless and Test & Assembly companies, representing 93% of the revenue base in 2019. It has a residual exposure to companies involved in the automotive/defence sectors (7% of the total).

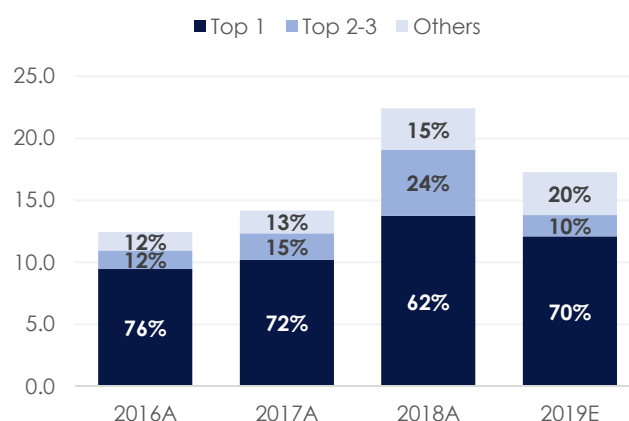
One of the main risks we identify in the equity story is its high customer concentration, as 70% of turnover comes from a single client, and 80% from the first three. The company's number 1 and number 2 clients are said to be a leading Italian Semi IDM and its leading German counterpart. In this respect, ELES expects to reduce this exposure by growing business with other clients. In the event the company successfully achieves this objective, the risk profile would clearly improve given the greater diversification and reduced dependence on specific customers. Moreover, we also see another positive repercussion, in that this would allow ELES to unlock further potential business with its top clients. In this case, the risk profile will clearly not improve notably as customer concentration will not decrease, but in our view the benefits in terms of positive earnings momentum will more than offset any downside.

Net sales breakdown by business (€ mn, 2016A-19E)



Source: company data and Intermonte SIM estimate

Net sales concentration (€ mn, 2016A-19E)



Source: company data

SWOT analysis

Strengths

- High innovation capability
- Sophisticated IP Libraries
- Zero Defect Reliability as a requirement
- Highly educated personnel
- Flexible cost structure

Weaknesses

- High customer concentration
- Geographical reach still insufficient
- Managerial structure needs to be enhanced
- Commercial structure to be reinforced

Opportunities

- Automotive and Semiconductor macro trend (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

Industry

Industry overview

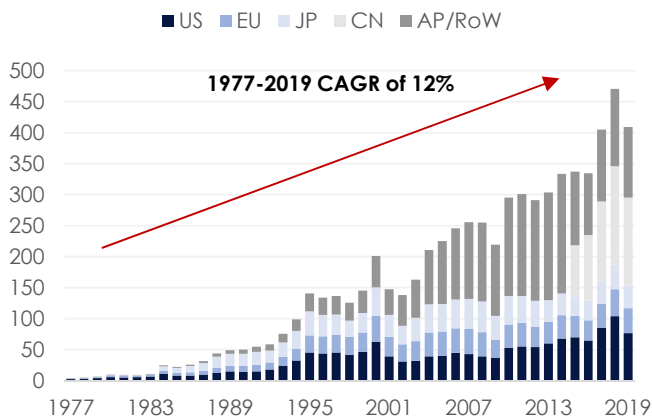
How has the industry evolved? Semiconductors¹ are essential technological components of almost all electronic products. Despite some cyclical downturns, such as the 13% YoY drop expected to have occurred in 2019, the semiconductor industry has grown strongly over the last 40 years, with global sales rising from under \$4bn in 1977 to more than \$400bn last year, a 12% CAGR. As can be appreciated from the graph below, the industry spans the globe, with Asia representing around 71% of sales followed by the US at 19% and Europe at 10%.

What have been the key drivers? Enabled by Moore's law², sector growth has largely been driven by the increasing proliferation of semiconductors in new products and rising penetration in existent applications and devices. While the industry emerged through a computer-centric model, with semiconductors largely embedded in mainframes, over recent years, consumer electronics products such as smartphones have been powerful contributors.

What are the future key drivers and growth expectations? Even more importantly, despite its robust expansion industry growth is showing no signs of running out of steam. According to industry sources, beyond continued product enhancements, the next decade will see the emergence of new technologies such as autonomous driving, artificial intelligence (AI), 5G and Internet of Things. On the back of these factors, the industry is expected to grow at 5% CAGR between 2019 and 2022, bringing global sales to almost \$500bn.

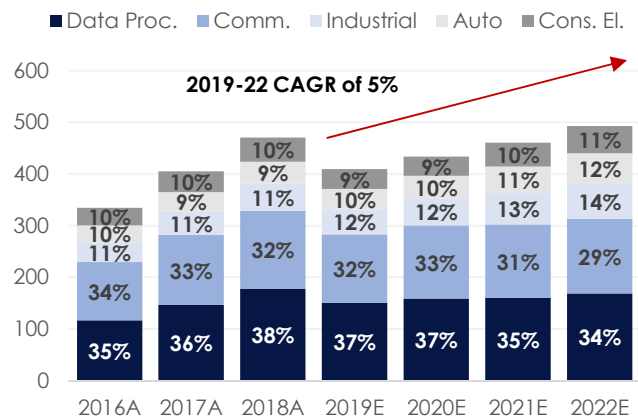
Where can semiconductors be found? The global semiconductor-based value chain extends throughout pretty much every economy, and into many industries. The graph below right shows the 5 main areas where semiconductors are used. Interestingly, the two main areas where chips are present, namely Data Processing and Communications, are still expected to grow in the coming years, although their combined share of the market will decrease from 70% in 2018 to 63% in 2022 given the much faster growth of the Automotive and Industrial segments (combined share expanding from 20% to 26% over the same period).

Worldwide semiconductor sales (\$ bn)



Source: World Semiconductor Trade Statistics (WSTS)

Semiconductor sales by end market (\$ bn)



Source: company presentation

¹ A semiconductor is a material that has electrical conductivity value falling between that of a conductor, such as a metal, and an insulator, such as glass

² According to Moore's law, the number of transistors (i.e. an approximation of computing power) on a microchip doubles every two years, though the cost of computers is halved

Semiconductor industry value chain

In order to understand ELES's position, we believe it is important to provide a brief description of the semiconductor value chain.

What activities are performed in the semiconductor industry? The semiconductor value chain features specific steps (i.e. activities) that transform an inert crystalline material into a chip embedded in a marketable device. The entire process starts with R&D projects that, if deemed successful, progress to the design phase. Once a chip design is finalised, the manufacturing phase swings into action. During this phase, so-called silicon wafer resulting from the purification of sands is transformed into chips through a number of steps. As Intel describes, the manufacture of chips on a wafer consists of hundreds of precisely controlled steps that result in a series of patterned layers of various materials, one on top of another. The packaging phase then begins, and different chips are assembled together allowing them to be used in real-world applications. The penultimate phase is testing, and it is here that faulty chips are identified. The semiconductor chips are put in a device where they are tested under conditions of varying voltage, electrical signals and temperature. Finally, the product is placed on the market by selling it to an OEM involved in a specific industry, such as automakers, rather than to a wholesale distributor.

What players are involved and where are they in the value chain? These activities are carried out by specific actors depending on their level of vertical integration. As a result, different business models have emerged, with the main distinction being between companies involved in a specific activity, ranging from "Fabless" or "Foundry" companies devoted respectively to R&D activities and manufacturing, to companies involved in almost all steps of the value chain, such as Integrated Device Manufacturers (IDMs).

Semiconductor industry value chain



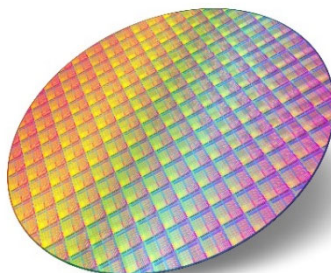
Source: Intermonte SIM

Sand used in the semi industry



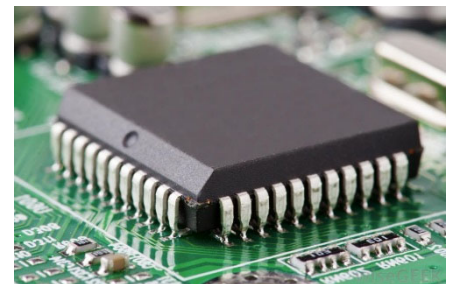
Source: wired.com

Semiconductor wafer



Source: electronicsandyou.com

Integrated circuit

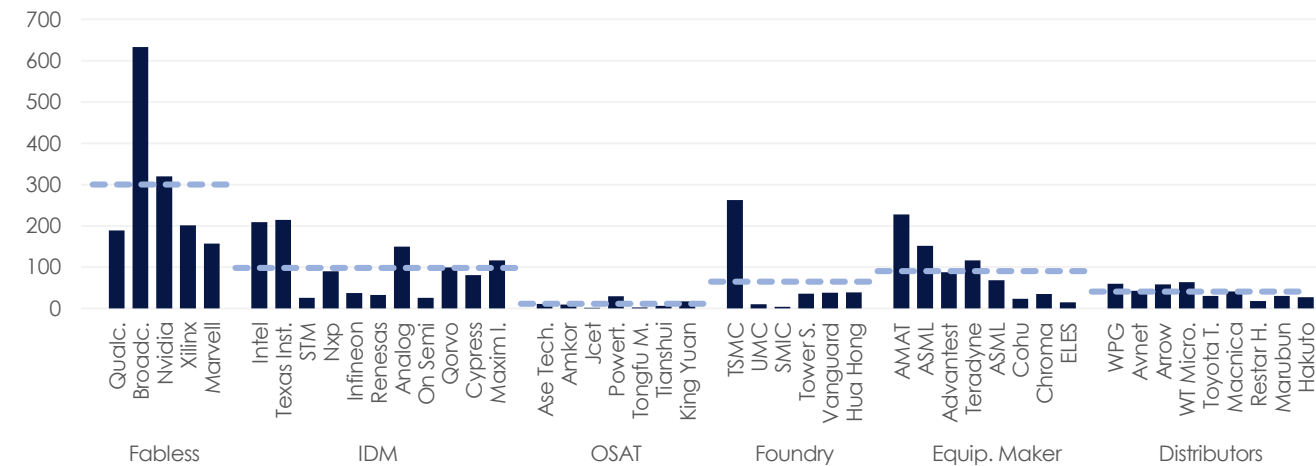


Source: autodesk.com

Automated Test Systems market segment

Where is ELES positioned? In the landscape outlined above, it is relatively easy to locate ELES among the providers of testing systems. ELES's offering is naturally targeted at both IDMs that perform the testing phase in-house and Outsourced Assembly and Test (OSAT) companies. Typically, the activity carried out by OSAT companies has limited added value and is relatively labour-intensive, so a high level of operational efficiency is needed in order to create value. This is clearly shown in the graph below, as the EBIT/employee of OSAT companies sits at the bottom end of the industry range.

Average EBIT/employee (\$ k, 2017-18)

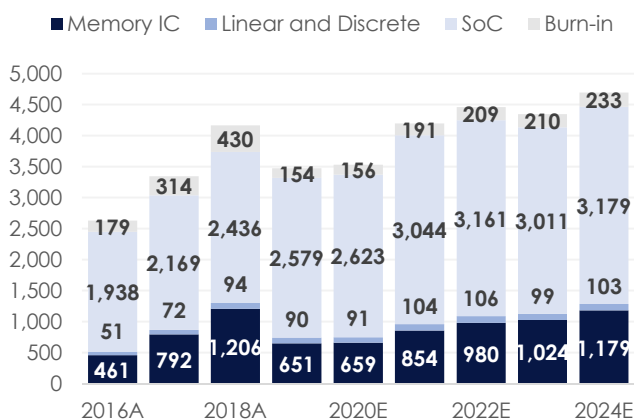


Source: Intermonte SIM on FactSet data

What are the demand drivers? Although total end market volumes play a role, we highlight that ELES's sector demand has a stricter relationship with CapEx, as its customers adjust their plans in response to industry changes. To a certain extent, this is what was witnessed in 2019, when semiconductor sales are expected to have fallen by 13%.

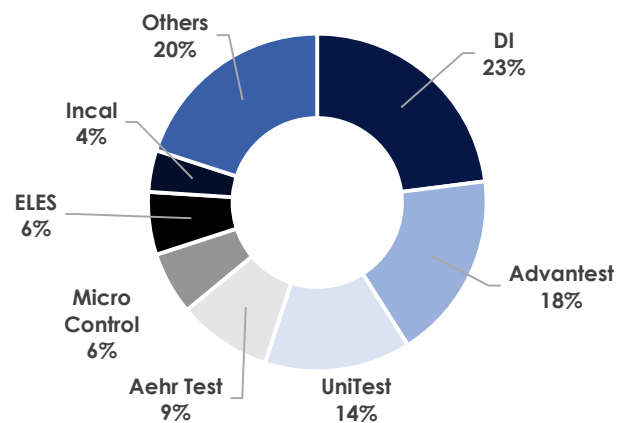
Beyond that, a crucial demand driver for ELES is the customer need for a reliable and cost-effective testing solution. After the negative performance recorded in 2019, the Burn-in segment of the Automated Test Equipment (ATE) market is expected to gradually recover and grow at a 9% CAGR from 2019 to 2024, when it is forecast to reach more than \$230mn. ELES is the sixth largest player in the market, boasting a 6% market share.

Global Automated Test Equipment market (\$ mn)



Source: Technavio "Global ATE market"; VLSI analysis

Burn-in segment market share



Source: company presentation

Strategy

Business plan guidelines

On 27th November the company presented a new business plan detailing strategic guidelines to 2022. In brief, ELES is aggressively pursuing international growth, both through existing and new client relationships. The key enabler is the company's product offering and compelling unique selling proposition aimed at improving testing performance while lowering the total testing cost. On the cost side, the company is also planning to reduce the impact on sales of material and direct personnel costs by sourcing materials from China (starting early 2020), outsourcing production and optimising production lots. The company is also interested in M&A, aimed firstly at speeding up the customer acquisition process, and secondly at strengthening its strategically-important technological leadership.

Organic growth

The organic growth plan is based on 5 key pillars:

1. **Product innovation;**
2. **Consolidation of acquired clients;**
3. **Penetration of the ECU market;**
4. **Acquisition of new customers;**
5. **Entering new geographical areas;**

Product innovation

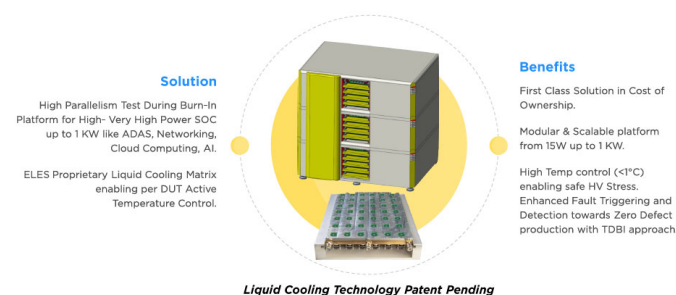
1. **R.E.T.E. approach toward Zero Defects <0.1ppm.** ELES aims to bring the R.E.T.E. approach to its clients as it allows improvements in the design phase, supporting continuous progress toward the "zero defects" goal, currently quantified as <0.1ppm;
2. **High Power Liquid Cooling LTC (Local Temperature Control) solution.** The company has recently introduced a liquid cooling (patent pending) solution for System Level Test During Burn-In that could drive the definition of Zero Defects down from 0.1ppm to 0.01ppm, a reduction by a further factor of 10 from the current market standard;
3. **Replicating the existing offering for ECU (Electronic Control Unit) testing.** The company aims to expand its products further to the testing of ECUs.

ELES 5 Key Pillars



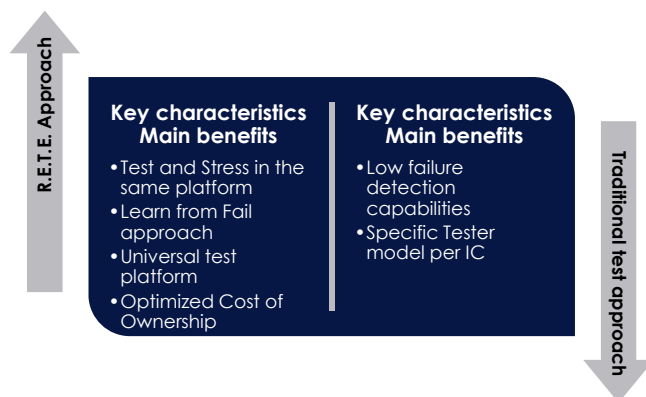
Source: company data

ELES' R.E.T.E. approach to zero defects (<0.01ppm)



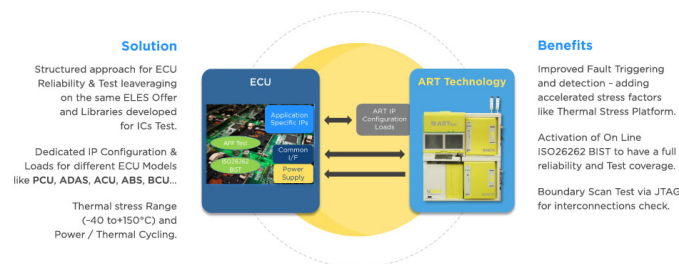
Source: company presentation

ELES' R.E.T.E. approach vs Traditional test approach



Source: company presentation

Coverage of ELES technology for ECU



Source: company presentation

Consolidation of acquired clients

During the implementation of the Plan, ELES aims to increase sales to already-acquired clients, especially **the most important players in the market**, becoming their reference supplier.

Penetration of the ECU market

ELES is strengthening its position in the ECU market, which despite the contraction recorded in 2019 related to the Automotive sector, is expected to grow strongly thanks to the introduction of EVs (Electrical Vehicles) and autonomous driving that will transform the Automotive sector. The growth in turnover from ECU sales, from €1.3mn in 2019 to €8.0mn in 2022, with a 2019-22 CAGR of 82.2%, is mainly driven by sales to new customers in the Automotive and Aerospace sectors.

Acquisition of new customers

ELES plans to acquire new customers both in the Semiconductors business and in the ECU and to consolidate sales to them from year to year, with the aim of becoming a strategic supplier for these customers.

Entering new geographical areas

During 2020-2022, the Plan foresees development in the United States, with a 2020-22 CAGR of 67.1% thanks to the strengthening of relations with the main players in the USA market, and increased sales in Asia, with a 2020-22 CAGR of 49.6%, to be achieved by entering new markets such as China. The Company has signed a trade agreement with the Chinese Company XCET. ELES has been laying the foundations for future development into other areas, such as India. Prudently, such developments have not been included in the Plan.

ELES geographical expansion plan

New Geographies Entry | Chinese Market Development 2020-2022



Chinese Government investments in Semiconductors market

- Chinese Government declared semiconductors market as strategic for national growth and security, thus it aims to reduce USA imports dependency by incentivising local semiconductors production.
- Research centers, Fabs, OSATs are developing across the country to sustain increasing semiconductors demand within automotive, aerospace and military markets.



Chinese XCET

- Chinese partner XCET Electronic, Private Company, with established relationships with Chinese Hi-Tech Laboratories / Institutes in 18 provinces of China.



Eles commercial agreement with Chinese XCET

- Thanks to XCET commercial agreement, Eles is going to enter the Chinese market with its technological and unique products.
XCET represents an opportunity for ELES to penetrate the Chinese market through the wide portfolio of XCET customers especially in the area of device qualification to then propose to Fabless, IDMs (Integrated Device manufacturers) and OSAT (Out-sourced semiconductor assembly & Testing) both for device qualification and reliability in production.
- In October 2019 Conference Presentation at TestConX China: "Embedding Reliability for Zero Field Failures" at Session: "Planning Ahead Doing the up-front work for reliability, debug, and simulation".
- Roadshow on Prospects, starting from December 2019.
- In January 2020 showroom in the city of Xi'an, the most important industrial and educational center of the central northern region of China, to follow up Prospects through the start of various DEMO projects.

Source: company presentation

Cost actions

As briefly identified, management is planning to implement three key actions:

1. Strengthening the organisational structure;
2. Procurement efficiency;
3. Production processes.

Strengthening the organisational structure

In 2020 the company plans to recruit talent that will reinforce the R&D and Commercial sectors. In particular, the main arrival will be a Chief Technical Officer to support the Company in relations with the centres that develop DFT libraries to be integrated into the design of the semiconductors, to drive continuous development of the RETE and TDBI offer and therefore of the Company's **Strategic Technological Leadership**, as well as to coordinate the R&D structure. Important figures will be hired in the Commercial area to support the international development plan. 4 additional resources will also arrive to strengthen the subsidiary ELES Asia Ltd. in order to ensure a greater presence in Asian markets.

In summary, the company plans to recruit:

- 1 CTO;
- 4 Sales for Business Development;
- 6 Staff Resources;
- 4 Resources for ELES Asia Ltd.

ELES Indirect personnel development

	2019 FCT	2020 BDG	2021 BP	2022 BP
Indirect personnel	45	49	58	60

Source: company presentation

Procurement efficiency

ELES plans to reduce the impact of **material and direct personnel costs** on sales during the Plan period. The former has decreased mainly due to the expansion of the qualified European supplier base, continuous improvement of products and reduced assembly costs, as there are plans to purchase some components from China as early as 2020.

Efficiency of production processes

Direct personnel costs will decrease thanks largely to the optimisation of production lots, as well as to a **partial outsourcing of production in China**. This should also guarantee an improvement in the contribution margin, equal to 1.8% in 2021 and 3.2% in 2022.

External growth

Obviously, we have not assumed any M&A transactions in our forecast. ELES's M&A strategy has a dual rationale:

- **Accelerating customer acquisition.** ELES sees potential M&A transactions in the United States as a fast-track to gaining access to new customers on which there is an opportunity for significant sales synergies. ELES said it has begun negotiations with three players operating in Burn-In tests for semiconductors whose customer portfolios are complementary to ELES. Any transaction would involve the acquisition of a majority stake. The project also aims to raise visibility and validate ELES's market position through a dual listing on both the domestic stock market and the NASDAQ;
- **Expansion of technological leadership.** This external growth strategy is mainly applicable to deals with Asian players in the Design for Testability (DfT) area.

ELES external growth guidelines

M&A operations are considered to boost growth (out of Business Plan perimeter)



Source: company presentation

Business plan financial targets

ELES's 2019-2022 financial targets are summarised below:

- **Net sales revenue** to €24.2mn by 2020 and €42.2mn by 2022;
- **EBITDA** to €4.8mn by 2020 (margin of 19.7%) and to €13.0mn by 2022 (margin of 30.9%);
- **EBIT** to €2.8mn by 2020 (margin of 11.6%) and to €10.4mn by 2022 (margin of 24.5%);
- **Net profit** to €1.6mn by 2020 and €7.1mn by 2022;
- **Cumulative 2019-22 CapEx** of €11.4mn;
- **Cumulated 2019-22 FCF** of €7.2mn;
- **Net cash position** of €7.4mn in 2022.

ELES Business Plan – Divisional breakdown

	2016A	2017A	2018A	2019 BP	2020 BP	2021 BP	2022 BP	CAGR 18A-22E	CAGR 19E-22E
APAC	1.4	2.9	6.6	3.1	6.9	12.3	15.4	+24%	+70%
EMEA	10.7	11.1	15.2	13.5	14.8	16.5	19.7	+7%	+13%
USA	0.4	0.2	0.4	0.6	2.5	4.0	7.1	+103%	+127%
Net sales	12.4	14.2	22.2	17.3	24.2	32.8	42.2	+17%	+35%
APAC	11%	20%	30%	18%	28%	38%	36%		
EMEA	86%	78%	68%	78%	61%	50%	47%		
USA	3%	2%	2%	4%	11%	12%	17%		
Semiconductor	11.1	13.0	18.1	16.0	21.2	26.8	34.2	+17%	+29%
ECU	1.4	1.2	4.1	1.3	3.0	6.1	8.0	+19%	+83%
Net sales	12.4	14.2	22.2	17.3	24.2	32.8	42.2	+17%	+35%
Semiconductor	89%	91%	82%	92%	88%	82%	81%		
ECU	11%	9%	18%	8%	12%	18%	19%		

Source: company presentation

ELES Business Plan – Income statement

	2016A	2017A	2018A	2019 BP	2020 BP	2021 BP	2022 BP	CAGR 18A-22E	CAGR 19E-22E
Net sales	12.4	14.2	22.2	17.3	24.2	32.8	42.2	+17%	+35%
YoY growth		+14%	+57%	-22%	+40%	+36%	+29%		
Adj. EBITDA	2.5	2.8	3.8	3.0	4.8	8.2	13.0	+36%	+63%
YoY growth		+13%	+35%	-20%	+59%	+72%	+58%		
Adj. EBITDA margin %	20.0%	19.7%	17.0%	17.4%	19.7%	25.0%	30.9%		
Adj. EBIT	0.4	0.6	1.5	1.1	2.8	5.9	10.4	+63%	+110%
YoY growth		+47%	+143%	-24%	+152%	+108%	+77%		
Adj. EBIT margin %	3.3%	4.3%	6.6%	6.5%	11.6%	17.8%	24.5%		
Net profit	0.0	0.2	0.8	0.4	1.6	3.8	7.1	+75%	+156%
YoY growth		+675%	+305%	-44%	+279%	+139%	+85%		
Net profit margin %	0.2%	1.3%	3.4%	2.4%	6.6%	11.7%	16.8%		

Source: company presentation

ELES Business Plan – Cash flow statement

	2016A	2017A	2018A	2019 BP	2020 BP	2021 BP	2022 BP	Cumulative 19E-22E	
EBITDA	2.5	2.8	3.8	3.0	4.8	8.2	13.0	29.0	
Provisions & Taxes								(7.6)	
Net working capital								(2.9)	
Operating cash flow								18.5	
Capex		(0.9)	(0.7)	(2.2)	(3.9)	(2.9)	(2.4)	(11.4)	
o/w R&D				66%	53%	64%	79%	64%	
o/w Digitalisation				14%	23%	10%	79%	30%	
o/w Operations & facilities				20%	24%	26%	11%	21%	
FCF	(0.3)	1.6						7.2	
Net debt/(cash) adj. for ins. pol.	6.3	6.1	4.3	1.3	1.3	(1.0)	(7.4)		

Source: company presentation

Financials: Historical Results and Our Forecasts

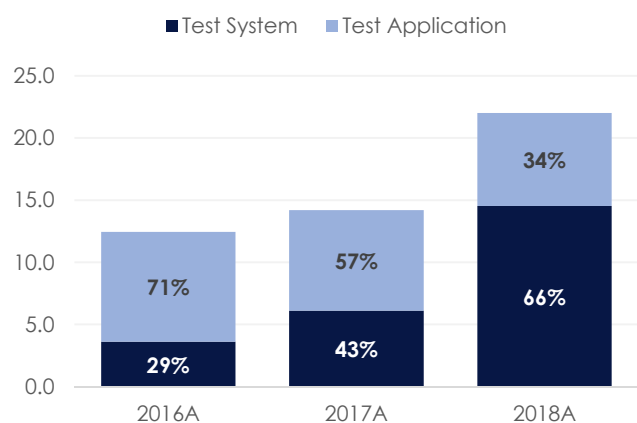
Historical results

Before outlining our forecasts in detail, we will first provide investors with a brief analysis of ELES's historical results from 2016 to 2018.

Strong revenue growth across the board. The combination of a revamped company offering and buoyant industry momentum led to the company closing 2018 with turnover of €22.6mn, essentially doubling its size compared to 2016 for a 35% CAGR.

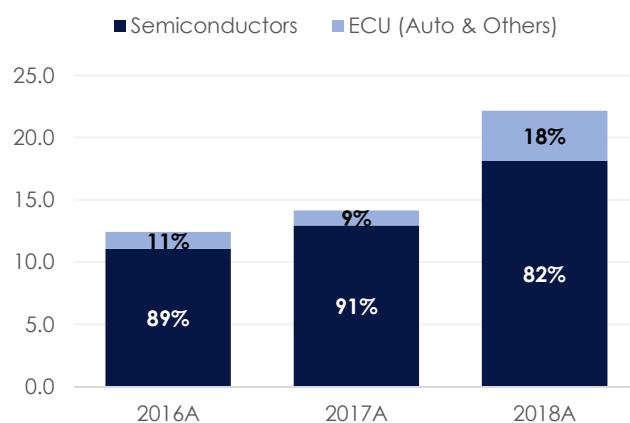
Over the period, EMEA remained the most important region, with revenue of €15.2mn (68% of the total) up from €10.7mn in 2016. In the meantime, APAC showed the strongest growth both in absolute and relative terms, going from €1.4mn in 2016 to €6.6mn in 2018. USA remained essentially flat at €0.4mn. From an end-market perspective, both Semiconductors and ECU (i.e. automotive) showed strong positive growth rates, with the former going from €11.1mn to €18.1mn and the latter from €1.4mn to €4.1mn, demonstrating the company's potential.

Net sales breakdown by product/service line (€ mn, 2016A-18A)



Source: company data and Intermonte SIM estimate

Net sales breakdown by business (€ mn, 2016A-18A)

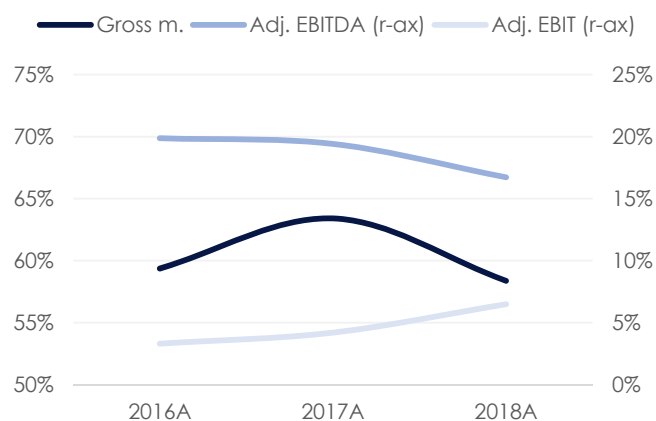


Source: company data and Intermonte SIM estimate

The company reported a stable gross margin trend, averaging 60.4% over the period. At the same time, the EBITDA margin went from 19.9% to 16.7%, hit by the increase in personnel costs in order to support growth. In particular, the impact on total costs grew from 22% in 2016 to 24% in 2018. Nevertheless, the EBIT margin improved to 6.5% from 3.3% due to almost stable D&A.

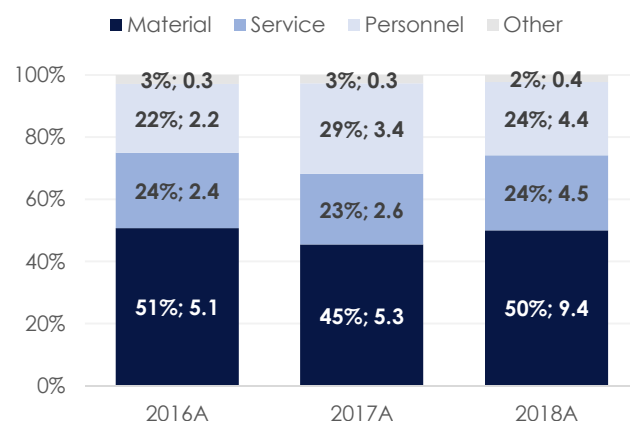
Net interest charges averaged €0.2mn, with an implicit cost of debt of 2.6% in 2018. The 2018 tax rate was 38.7%, down from 47.3% in 2017.

Margin evolution (2016A-18A)



Source: company data

Cost breakdown (share and € mn, 2016A-18A)



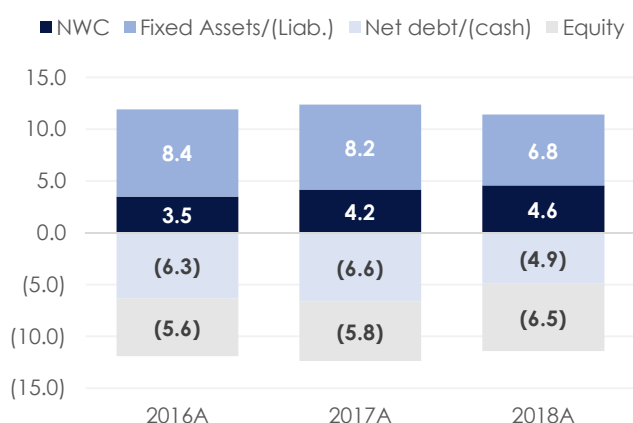
Source: company data

Balance sheet under control. Net debt/EBITDA and gearing ratio improved from the 2016/17 levels of around 2.5x and 115% to 1.3x and 74% respectively following the cash generated in 2018. In addition, the 2019 capital gathered through the IPO essentially brought the company to a neutral cash position.

While there is some room for improvement, trade net working capital is largely under control, with Days of Sales Outstanding (DSO), Days of Inventories (DOI) and Days Payable Outstanding (DPO) standing at 94, 61 and 86 respectively.

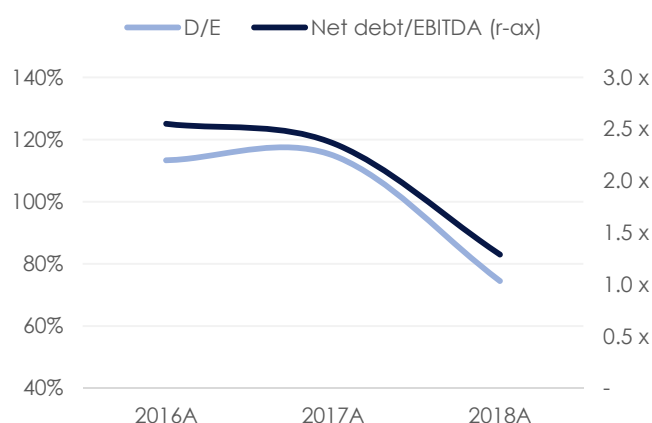
Positive FCF generation. In 2017 and 2018, on average the company generated €0.7mn in FCF per year despite a net working capital headwind following strong turnover growth. FCF conversion averaged 20% in 2017 and 2018. Unfortunately, a broader analysis of cash flow generation is not possible, as our historical series only dates back to 2016 (the company switched to the IAS-IFRS in 2017).

Balance sheet (€ mn, 2016A-18A)



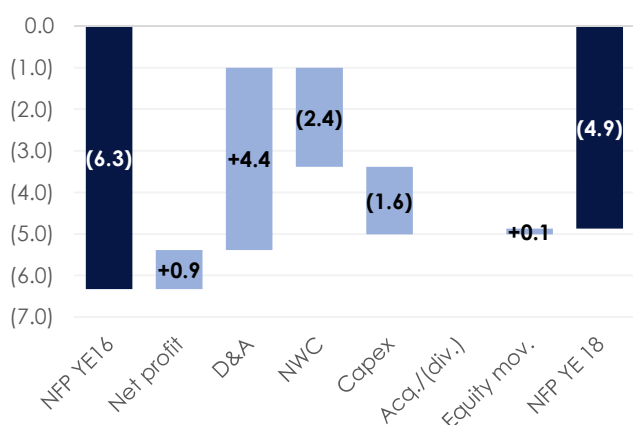
Source: Intermonte SIM on company data

Gearing ratio and net debt/EBITDA (2016A-18A)



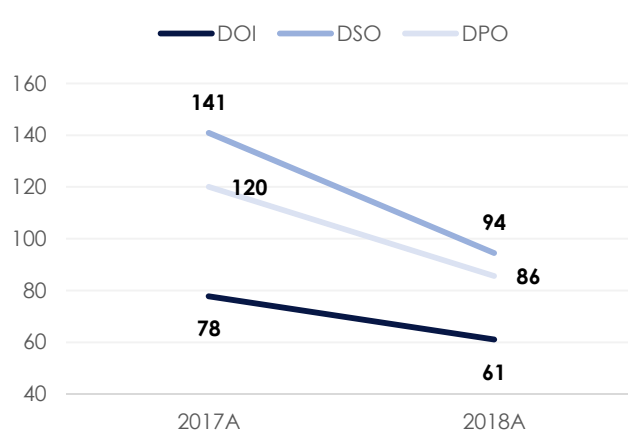
Source: Intermonte SIM on company data

Net financial position bridge (€ mn, 2016A-18A)



Source: Intermonte SIM on company data

Days of Inventories, Sales and Payable Outstanding (2016A-18A)



Source: Intermonte SIM company data

Financial forecasts

Income statement

2019 adversely affected by industry slowdown. Following the strong performance recorded between 2016 and 2018, 2019 should close with a slowdown of around -22% in turnover vs. 2018, as various clients have delayed projects by several months as a result of adjustments to CapEx plans in response to the industry downturn (Global Semiconductor sales are expected to have fallen 13% in 2019 but the burn-in test market is seen down 64% YoY). Importantly, this adverse trend should be temporary, reflecting the CapEx cycle of the Semiconductor sector.

Robust growth expected to resume from 2020. We project a considerable increase in turnover in the coming years, with a 15% CAGR between 2018 and 2022 (30% for the 2019-22 period), in light of market potential, the company's compelling go-to-market approach and its attractive selling proposition. Compared to the company's business plan, our forecasts are broadly aligned with 2019 targets, but from 2020 onwards our forecasts are lower as we are taking a more conservative approach in such a rapid growth scenario. Our forecasts show revenues improving from the €17.7mn envisaged for 2019 to €38.9 in 2022 (company target €42.2mn excluding the €0.4mn from the "Other" line). EMEA and Semiconductors should remain the biggest contributors to ELES's turnover, but APAC and the ECU units should again be the company's growth driver.

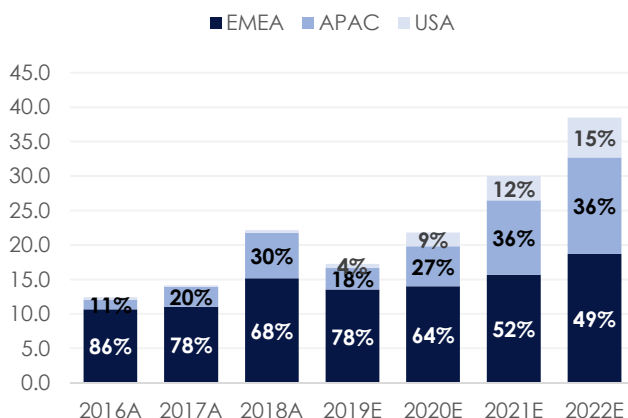
We did not include any contribution from as-yet unannounced M&A deals.

Turnover breakdown (€ mn)

	2016A	2017A	2018A	2019E	2020E	2021E	2022E	CAGR 2018A-22E	CAGR 2019E-22E
APAC	1.4	2.9	6.6	3.1	5.8	10.8	14.0	+21%	+65%
EMEA	10.7	11.1	15.2	13.5	14.0	15.7	18.7	+5%	+11%
USA	0.4	0.2	0.4	0.6	2.0	3.5	5.8	+93%	+112%
Net sales	12.4	14.2	22.2	17.3	21.8	30.0	38.5	+15%	+31%
Others	0.1	0.2	0.4	0.4	0.4	0.4	0.4	+0%	+0%
Revenue	12.5	14.4	22.6	17.7	22.2	30.4	38.9	+15%	+30%
Semiconductors	11.1	13.0	18.1	16.0	18.9	24.2	30.9	+14%	+25%
ECU (Auto & Others)	1.4	1.2	4.1	1.3	2.9	5.8	7.6	+17%	+81%
Net sales	12.4	14.2	22.2	17.3	21.8	30.0	38.5	+15%	+31%
Others	0.1	0.2	0.4	0.4	0.4	0.4	0.4	+0%	+0%
Revenue	12.5	14.4	22.6	17.7	22.2	30.4	38.9	+15%	+30%
Share									
APAC	11%	20%	30%	18%	27%	36%	36%		
EMEA	86%	78%	68%	78%	64%	52%	49%		
USA	3%	2%	2%	4%	9%	12%	15%		
Semiconductors	89%	91%	82%	93%	87%	81%	80%		
ECU (Auto & Others)	11%	9%	18%	7%	13%	19%	20%		

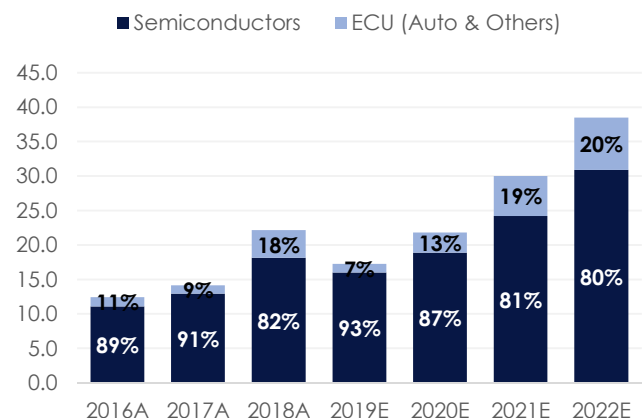
Source: Intermonte SIM estimate (E) and company data (A)

Net sales breakdown by geographical area (€ mn, 2016A-22E)



Source: company data and Intermonte SIM estimate

Net sales breakdown by business (€ mn, 2016A-22E)



Source: company data and Intermonte SIM estimate

Operating profitability improvement to come from procurement efficiencies and leverage. Over the forecast period, we are assuming a steady notable improvement in profitability. The gross, EBITDA and EBIT margins are foreseen rising from 58.4%, 16.7% and 6.5% in 2018 respectively to 62.7%, 24.3% and 15.9% in 2022. We envisage this strong improvement will be driven almost equally by management actions on procurement efficiencies (sourcing from China) and operating leverage considering the sharp turnover growth. Our forecast points to EBITDA and EBIT CAGRs 2018-22 of +26% and +43% respectively.

Bottom line to reflect operating improvement. Assuming a stable net financial cost of debt of 2.5% and a 35.0% tax rate, we estimate adj. net profit to grow at a +51% CAGR, reaching €3.9mn in 2022.

Income statement

	2016A	2017A	2018A	2019E	2020E	2021E	2022E	CAGR 2018A-22E	CAGR 2019E-22E
Revenue	12.5	14.4	22.6	17.7	22.2	30.4	38.9	+15%	+30%
YoY growth		+15.3%	+57.0%	-21.7%	+25.6%	+36.9%	+27.9%		
- Material purchase	(5.1)	(5.3)	(9.4)	(7.5)	(9.1)	(11.9)	(14.5)	+11%	+25%
Gross profit	7.4	9.1	13.2	10.2	13.1	18.6	24.4	+17%	+34%
YoY growth		+23.2%	+44.5%	-22.5%	+28.4%	+41.4%	+31.5%		
Gross margin %	59.4%	63.4%	58.4%	57.8%	59.1%	61.0%	62.7%		
- Service costs	(2.4)	(2.6)	(4.5)	(3.4)	(4.2)	(5.5)	(6.8)		
- Other operational costs	(0.3)	(0.3)	(0.4)	(0.3)	(0.4)	(0.6)	(0.7)		
- Personnel costs	(2.2)	(3.4)	(4.4)	(3.8)	(4.6)	(6.0)	(7.5)		
+ Non-recurring costs	0.0	0.0	0.0	0.2	0.0	0.0	0.0		
- Total operating expenses	(4.9)	(6.3)	(9.4)	(7.3)	(9.2)	(12.1)	(15.0)	+12%	+27%
Adj. EBITDA	2.5	2.8	3.8	2.9	3.9	6.5	9.4	+26%	+48%
YoY growth		+12.7%	+35.2%	-23.6%	+36.3%	+64.5%	+45.9%		
Adj. EBITDA margin %	19.9%	19.4%	16.7%	16.3%	17.7%	21.3%	24.3%		
- D&A and others	(2.1)	(2.2)	(2.3)	(1.9)	(2.3)	(2.9)	(3.3)		
Adj. EBIT	0.4	0.6	1.5	1.0	1.6	3.6	6.2	+43%	+85%
YoY growth		+46.6%	+142.7%	-33.7%	+67.0%	+122.6%	+70.8%		
Adj. EBIT margin %	3.3%	4.2%	6.5%	5.5%	7.3%	11.9%	15.9%		
- Non-recurring costs	0.0	0.0	0.0	(0.2)	0.0	0.0	0.0		
-/+ Net fin. (exp.)/inc.	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)		
- Profit/Losses on exchange rates	0.0	(0.0)	(0.0)	0.0	0.0	0.0	0.0		
Profit before tax	0.1	0.4	1.2	0.6	1.4	3.4	6.0	+49%	+110%
- Tax income	(0.1)	(0.2)	(0.5)	(0.2)	(0.5)	(1.2)	(2.1)		
Tax rate %	83.8%	47.3%	38.7%	35.0%	35.0%	35.0%	35.0%		
Net income	0.0	0.2	0.8	0.4	0.9	2.2	3.9	+51%	+110%
- Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Net income attr. to shareholders	0.0	0.2	0.8	0.4	0.9	2.2	3.9	+51%	+110%
YoY growth		+675.0%	+305.4%	-44.4%	+121.3%	+139.8%	+75.2%		
Net income margin %	0.2%	1.3%	3.3%	2.4%	4.2%	7.3%	10.0%		
+ Non-recurring costs	0.0	0.0	0.0	0.2	0.0	0.0	0.0		
- Tax effect	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Net income adj.	0.0	0.2	0.8	0.6	0.9	2.2	3.9	+51%	+87%
YoY growth		+675.0%	+305.4%	-21.5%	+56.6%	+139.8%	+75.2%		
Net income margin %	0.2%	1.3%	3.3%	3.3%	4.2%	7.3%	10.0%		

Source: Intermonte SIM estimate (E), company data (A)

Balance sheet and cash flow statement

Over the 2019-22 period, we expect ELES's cash generation to be back-end loaded, reflecting the growing earnings and CapEx trends detailed in the business plan. We forecast a cumulative €3.7mn in FCF generation with steady annual improvements until 2022 when FCF is seen at €2.7mn. Our model is based on the following assumptions:

- **Net working capital.** We project ELES to improve its working capital requirements to a level broadly in line with its business plan as our model assumes inventory levels, collection and payment terms will continue on the current trajectory. Hence, our forecast points to a cash conversion cycle at 50 days in 2022 vs 70 in 2018.
- **CapEx.** Consistent with the company's capital investment plan, we forecast ELES to spend around €11.6mn from 2019 to 2022. The CapEx plan is front-weighted (CapEx peak in 2020) as ELES aims to invest in R&D to enhance the product offering to fuel future growth as well as to improve the corporate structure with investments in digitalisation and facilities;
- **Cash-out/in from acquisitions/divestments.** As we are not including any M&A transactions in our forecast before they are announced, our model does not assume an cash-out/in in relation to external transactions;
- **Dividends, buyback and equity financing.** The company has no dividend policy in place and is not carrying out a buyback plan. Moreover, we are not modelling any cash-in from the conversion of warrants until conversion takes place but we have considered this factor in our valuation model.

Condensed balance sheet

	2016A	2017A	2018A	2019E	2020E	2021E	2022E	Avg ratio 2018A-22E	Avg ratio 2019E-22E
Trade net working capital	3.5	4.8	5.2	5.3	4.8	6.2	7.3	42%	41%
Other current asset/(liab.)	0.0	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	-5%	-5%
Net working capital	3.5	4.2	4.6	4.7	4.1	5.6	6.6	37%	37%
Non-current asset/(liab.)	8.4	8.2	6.8	8.2	9.4	9.2	9.4	63%	63%
Net capital employed	11.9	12.4	11.4	12.9	13.5	14.8	16.0	100%	100%
Net debt/(cash)	6.3	6.6	4.9	(0.1)	(0.4)	(1.3)	(4.0)	-1%	-10%
Equity	5.6	5.8	6.5	13.0	13.9	16.1	20.0	101%	110%
Invested capital	11.9	12.4	11.4	12.9	13.5	14.8	16.0	100%	100%

Source: Intermonte SIM estimate (E), company data (A)

Cash flow statement

	2016A	2017A	2018A	2019E	2020E	2021E	2022E	Cumulated 2018A-22E	Cumulated 2019E-22E
NFP beginning of the period		(6.3)	(6.6)	(4.9)	0.1	0.4	1.3		
Net income		0.2	0.8	0.4	0.9	2.2	3.9	8.2	7.5
+ D&A		2.2	2.2	1.9	2.2	2.7	3.1	12.2	9.9
Change in working capital		(1.7)	(0.3)	(0.1)	0.6	(1.4)	(1.1)	(2.4)	(2.1)
+/- Other movements		(0.1)	(0.4)	0.0	0.0	0.0	0.0	(0.4)	0.0
Cash flow from operations		0.6	2.3	2.1	3.7	3.5	6.0	17.6	15.3
Capex		(0.9)	(0.7)	(2.3)	(3.4)	(2.6)	(3.3)	(12.3)	(11.6)
FCF (ex. acq)		(0.3)	1.6	(0.2)	0.3	0.9	2.7	5.3	3.7
Acquisitions/(divestments)		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF (incl. acq)		(0.3)	1.6	(0.2)	0.3	0.9	2.7	5.3	3.7
Div., Buyb., Equity fin. and others		(0.0)	0.1	5.1	0.0	0.0	0.0	5.3	5.1
Change in NFP		(0.3)	1.7	5.0	0.3	0.9	2.7	10.6	8.9
NFP end of the period		(6.6)	(4.9)	0.1	0.4	1.3	4.0		

Source: Intermonte SIM estimate (E), company data (A)

Working capital, Capex, Indebtedness, cash generation and capital allocation ratio

	2016A	2017A	2018A	2019E	2020E	2021E	2022E	Cumulated 2018A-22E	Cumulated 2019E-22E
Working capital									
DOI		78	61	84	62	53	48		
DSO		141	94	110	112	94	77		
DPO		120	86	100	116	92	75		
Cash conversion cycle		99	70	94	58	55	50		
Trade net working capital on sales %		33.4%	23.1%	30.2%	21.5%	20.4%	18.7%		
Net working capital on sales %		29.0%	20.2%	26.6%	18.5%	18.3%	17.0%		
Capex									
Total net capex		(0.9)	(0.7)	(2.3)	(3.4)	(2.6)	(3.3)	(12.3)	(11.6)
Capex on sales %		6.3%	3.2%	13.0%	15.5%	8.5%	8.4%		
D&A		(2.2)	(2.2)	(1.9)	(2.2)	(2.7)	(3.1)	(12.2)	(9.9)
D&A on sales %		15.1%	9.8%	10.5%	10.0%	9.0%	8.0%		
Capex/D&A		0.4 x	0.3 x	1.2 x	1.6 x	0.9 x	1.1 x		
Indebtedness, cash generation and capital allocation ratio									
Net debt/EBITDA	2.6 x	2.4 x	1.3 x	(0.0 x)	(0.1 x)	(0.2 x)	(0.4 x)		
D/E	113%	115%	74%	-1%	-3%	-8%	-20%		
ROCE %		5%	13%	8%	12%	24%	39%		
FCF conversion %		-10%	42%	-5%	7%	14%	28%		
FCF growth			-531.1%	-112.9%	-233.0%	+98.9%	+98.1%		

Source: Intermonte SIM estimate (E), company data (A)

Valuation

With this note, we are updating the TP published in the note initiating our coverage of the stock on 8th January to reflect the warrant distribution on 13th January. Consequently, while our analysis, forecasts, valuation method and investment conclusions remain unchanged, our target price goes to €5.8 as we amend the number of fully-diluted shares for the newly-issued warrants still considering the cash-in resulting from their future expected exercise. While 2019 should have closed with a notable drop in turnover, we expect this to be a temporary blip as ELES should achieve meaningful future growth and margin expansion thanks to its innovative R.E.T.E offering. ELES's solutions offer superior testing results and cost effectiveness, which should allow the company to intercept the rising demand for chip reliability.

Valuation summary

	Fair value per share	Probability	Fair value weighted
Base case @ our estimate	5.0	70%	3.5
Bull case @ company's BP targets	7.8	30%	2.3
Target price			5.8
Actual share price			4.5
Upside/(Downside)			30%

Source: Intermonte SIM

Valuation summary

	ELES @ our TP (Fully diluted)			Peers' median			Premium/(discount)		
	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
EV/SALES	4.9 x	3.9 x	2.8 x	4.2 x	3.6 x	3.4 x	17%	7%	-18%
EV/EBITDA	30.0 x	21.9 x	13.2 x	19.5 x	15.7 x	13.0 x	54%	40%	1%
EV/EBIT	88.9 x	53.1 x	23.6 x	28.3 x	16.1 x	14.6 x	215%	230%	62%
P/E	165.1 x	105.4 x	43.9 x	29.1 x	22.3 x	18.8 x	467%	373%	134%

Source: Intermonte SIM, FactSet for peers' median

While we are generally loath to value a business in a cyclical industry, even one with lasting underlying growth trends, through a DCF model, we are making an exception in this case. The fundamental reason lies in the fact that a valuation based on market multiples would not capture the value of the company's strong growth prospects. In any case, we also provide the market multiples at which the company would trade for comparison purposes.

Our target price is derived from the weighted average of two scenarios:

- **A base case scenario** with a 70% likelihood. In this case, our valuation is based on the explicit estimates we presented in the section above, according to which we assume the company grows robustly while also delivering margin improvements, although we factor in some degree of uncertainty given the cyclicity of the industry. In brief, we estimate a +15% 2018-22 turnover CAGR, with profitability expanding from 17% in 2018 to 24% in 2022. After the period explicitly covered by the plan, we assume growth will fade, remaining steady at 2%. This approach yields a fair value of €5.0 per share;
- **And a bull case scenario** to which we have assigned a 30% chance. In this scenario, we assume the company delivers financial results in line with the business plan. In brief, turnover will grow at a +17% 2018-2022 CAGR while the EBITDA margin will expand from 17.0% in 2018 to 30.9% in 2022 with FCF totalling €7.2mn in the period. This approach yields a fair value of €7.8 per share. We therefore note that in the event the company fully delivers on its plan there is significant upside to the current stock price. While we prefer to remain cautious for the time being, we may well increase the weight of this scenario in our valuation as the plan is implemented.

In our valuation, we assume a WACC of 7.9%, with the main assumptions being a cost of equity of 8.4% (risk-free rate at 2.0%, ERP at 5.0%, unlevered beta of 1.28) and a cost of debt pre-tax of 3.5% (tax rate of 27.9%). Our terminal growth rate is 2.0%.

Discounted Cash Flow Valuation and sensitivity – Base case scenario

	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	TV
Revenue	22.2	30.4	38.9	39.7	40.5	41.3	42.1	42.9	
YoY growth	25.6%	36.9%	27.9%	2.0%	2.0%	2.0%	2.0%	2.0%	
- Operating costs	(18.3)	(23.9)	(29.5)	(30.1)	(30.7)	(31.3)	(31.9)	(32.5)	
= EBITDA	3.9	6.5	9.4	9.6	9.8	10.0	10.2	10.4	
EBITDA margin %	17.7%	21.3%	24.3%	24.3%	24.3%	24.3%	24.3%	24.3%	
- D&A	(2.3)	(2.9)	(3.3)	(3.1)	(3.2)	(3.3)	(3.3)	(3.4)	
= EBIT	1.6	3.6	6.2	6.5	6.6	6.8	6.9	7.0	
Adj. EBIT margin %	7.3%	11.9%	15.9%	16.4%	16.4%	16.4%	16.4%	16.4%	
- Taxes on EBIT	(0.5)	(1.0)	(1.7)	(1.8)	(1.8)	(1.9)	(1.9)	(2.0)	
Tax rate %	27.9%	27.9%	27.9%	27.9%	27.9%	27.9%	27.9%	27.9%	
= NOPAT	1.2	2.6	4.5	4.7	4.8	4.9	5.0	5.1	
+ D&A	2.3	2.9	3.3	3.1	3.2	3.3	3.3	3.4	
-/+ (Inc.)/Dec. In NWC	0.6	(1.4)	(1.1)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)	
- Capex	(3.4)	(2.6)	(3.3)	(3.1)	(3.2)	(3.3)	(3.3)	(3.4)	
Capex/Sales %	15.5%	8.5%	8.4%	7.9%	7.9%	7.9%	7.9%	7.9%	
= FCF	0.6	1.4	3.4	4.5	4.7	4.7	4.8	4.9	86.2
x Discount factor	0.96	0.89	0.83	0.77	0.71	0.66	0.61	0.57	
= PV (FCF)	0.6	1.3	2.8	3.5	3.3	3.1	2.9	2.8	52.7

Equity value	
SUM PV(FCF)	20.3
PV TV	52.7
Enterprise Value	73.1
-/+ Net debt/(cash) @ YE19	(0.1)
- Pension liabilities	0.0
- Minorities and future ob.	0.0
Equity value	73.1
Cash-in from issued warr. Conv.	11.2
Equity value + Cash from Warrant c	84.3
Shares outstanding (mn)	11.2
Shares from issued warr. Conv. (mn)	5.6
Fair value per share (Eu)	5.0

		Terminal growth rate				
		1.0%	1.5%	2.0%	2.5%	3.0%
WACC	6.0%	6.1	6.6	7.2	7.9	9.0
	6.9%	5.2	5.5	5.9	6.4	7.0
	7.9%	4.5	4.8	5.0	5.3	5.7
	8.4%	4.2	4.4	4.6	4.9	5.2
	9.0%	4.0	4.1	4.3	4.5	4.7

Source: Intermonte SIM estimate

Peers

Company description

We identified 5 main peers:

Teradyne, Inc.. Teradyne, Inc. supplies automation equipment for test and industrial applications. It operates in the following segments: Semiconductor Test, System Test, Wireless Test, and Industrial Automation. The Semiconductor Test segment designs, manufactures, sells, and supports semiconductor test products and services that are used both for wafer level and device package testing. The Systems Test segment comprises the defence and aerospace, storage test, and production board test business unit. The Wireless Test segment designs, develops, and supports advanced wireless test equipment for the manufacturing of wireless devices such as smart phones, tablets, notebooks, laptops, personal computer peripherals, and other Wi-Fi, bluetooth, near field communication and cellular enabled devices. The Industrial Automation segment supplies collaborative robots that work side-by-side with production workers. The company was founded by Alexander V. d'Arbeloff and Nicholas DeWolf on 23rd September 1960 and has its headquarters in North Reading, MA.

Cohu, Inc.. Cohu, Inc. engages in the provision of back-end semiconductor equipment and services. It operates through the Semiconductor Test and Inspection, and Printed Circuit Board Test business units. The company was founded in 1947 and is based in Poway, CA.

Aehr Test Systems. Aehr Test Systems 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. The company was founded by Rhea J. Posedel on 25th May 1977 and has its headquarters in Fremont, CA.

Advantest Corp.. Advantest Corp. engages in the manufacture and sale of mechatronic products. It operates through the following business segments: Semiconductor and Components Test Systems, Mechatronic and Others. The Semiconductor and Components Test Systems segment offers test systems for the semiconductor and electronic component industries. The Mechatronic segment provides semiconductor devices handling mechatronic-applied products, such as testers, handlers, device interfaces, and nanotechnology products. The Others segment involves the provision of customer solution, support and equipment leasing services. The company was founded by Ikuo Takeda in December 1954 and has its headquarters in Tokyo, Japan.

Chroma Ate Inc.. Chroma Ate, Inc. engages in the design and manufacture of precision electronic measuring instruments. Its products include power electronics test, electric vehicle test, battery test & automation, passive component test, electrical safety test, video and colour test, flat panel display test, lighting and driver test, optical devices test, photovoltaic and inverter test, automated optical inspection, semiconductor and integrated circuit test, manufacturing execution systems, turnkey test and automation solutions. The company was founded on 8th November 1984 and is based in Taoyuan, Taiwan.

Financials

ELES' peer group key financials (1/2)

Company name	HQ	Mkt Cap (€ mn)	SALES growth				EBITDA margin %				EBIT margin %			
			2018A	2019E	2020E	2021E	2018A	2019E	2020E	2021E	2018A	2019E	2020E	2021E
ELES @ our est.	ITA	48	57%	-22%	26%	37%	17%	16%	18%	21%	6%	5%	7%	12%
ELES @ BP target	ITA	48	57%	-22%	40%	36%	17%	17%	20%	25%	7%	6%	12%	18%
Teradyne	USA	10,604	-2%	7%	10%	12%	30%	29%	29%	31%	25%	25%	26%	27%
Cohu	USA	922	28%	28%	13%	14%	16%	10%	15%	18%	14%	6%	12%	16%
Aehr	USA	39	56%	-29%	38%	25%	n.a.	n.a.	n.a.	n.a.	3%	-17%	5%	10%
Advantest	JPN	9,970	34%	-8%	12%	9%	25%	23%	25%	27%	23%	20%	23%	24%
Chroma	TWN	2,012	8%	-18%	18%	12%	20%	19%	24%	26%	18%	16%	22%	24%
Peers average			25%	-4%	18%	14%	23%	20%	23%	25%	17%	10%	17%	20%

Source: Intermonte SIM on FactSet data

ELES' peer group key financials (2/2)

Company name	HQ	Mkt Cap (€ mn)	CAGR 2018A-21E			D&A/SALES %			CAPEX/SALES %			FCF conversion %		
			SALES	EBITDA	EBIT	2019E	2020E	2021E	2019E	2020E	2021E	2019E	2020E	2021E
ELES @ our est.	ITA	48	10%	20%	35%	8%	13%	13%	13%	16%	9%	-0.9%	1.3%	3.1%
ELES @ BP target	ITA	48	14%	30%	59%	9%	11%	10%	13%	16%	9%	n.a.	n.a.	n.a.
Teradyne	USA	10,604	10%	11%	13%	5%	4%	4%	6%	6%	5%	16.5%	21.3%	20.6%
Cohu	USA	922	18%	23%	22%	6%	3%	3%	3%	3%	3%	1.3%	3.5%	7.0%
Aehr	USA	39	7%	n.a.	58%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Advantest	JPN	9,970	4%	7%	6%	3%	3%	4%	3%	2%	2%	14.6%	16.3%	19.1%
Chroma	TWN	2,012	3%	12%	13%	2%	3%	2%	7%	6%	5%	17.4%	12.5%	15.2%
Peers average			8%	13%	22%	4%	3%	3%	5%	4%	4%	12.5%	13.4%	15.5%

Source: Intermonte SIM on FactSet data

Market Multiples

Market multiples

Company name	HQ	Mkt Cap (€ mn)	EV/SALES			EV/EBITDA			EV/EBIT			PE		
			FY1	FY2	FY3	FY1	FY2	FY3	FY1	FY2	FY3	FY1	FY2	FY3
Teradyne	USA	10,604	5.5 x	5.0 x	4.5 x	18.6 x	17.3 x	14.5 x	21.8 x	19.7 x	16.5 x	25.7 x	22.3 x	18.8 x
Cohu	USA	922	2.1 x	1.8 x	1.6 x	20.4 x	12.7 x	8.6 x	35.5 x	16.0 x	10.5 x	179.5 x	24.0 x	14.1 x
Aehr	USA	39	1.4 x	1.1 x					28.3 x	11.3 x		19.0 x	9.5 x	
Advantest	JPN	9,970	4.2 x	3.6 x	3.2 x	17.9 x	14.4 x	11.9 x	20.9 x	16.1 x	13.5 x	29.1 x	23.1 x	20.8 x
Chroma	TWN	2,012	5.0 x	4.1 x	3.6 x	26.5 x	16.9 x	14.1 x	31.0 x	19.0 x	15.6 x	33.8 x	21.7 x	18.8 x
Average			3.6 x	3.2 x	3.2 x	20.8 x	15.3 x	12.3 x	27.5 x	16.4 x	14.0 x	57.4 x	20.1 x	18.1 x
Median			4.2 x	3.6 x	3.4 x	19.5 x	15.7 x	13.0 x	28.3 x	16.1 x	14.6 x	29.1 x	22.3 x	18.8 x

Source: Intermonte SIM on FactSet data

DETAILS ON STOCKS RECOMMENDATION

Stock NAME	ELES		
Current Recomm:	OUTPERFORM	Previous Recomm:	OUTPERFORM
Current Target (Eu):	5.80	Previous Target (Eu):	6.60
Current Price (Eu):	4.47	Previous Price (Eu):	5.30
Date of report:	20/01/2020	Date of last report:	08/01/2020

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- 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
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OUTPERFORM:	50.00 %
NEUTRAL:	35.15 %
UNDERPERFORM	03.91 %
SELL:	00.00 %

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NEUTRAL:	27.08 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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SPACTIV	0,78	LONG
THESPA	0,83	LONG
VEI 1	0,65	LONG

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