

Additional strategic actions to drive growth



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1H21: on track to reach our FY21 estimates

Eles 1H21 results are in line with its FY21 guidance and on track to reach our FY21 estimates. Revenue grew by 16.7% yoy, higher than growth recorded in Semiconductor Equipment in the areas representing over 90% of Group's turnover. The increase was also driven by client basis expansion, with first solutions delivered to five new clients in the USA, Israel and China. In terms of EBITDA, the Company showed an increase of 32% yoy reaching €1.8mln with margin improving to 19% from 16.9% in 1H20. At the end of June, Eles showed a net cash position of €4.9mln from previous €527k at the end of December, coming mainly from warrants execution.

Additional strategic actions to boost growth

In addition to the strategies already implemented since the beginning of the year, Eles introduced new actions to improve its market position and to drive future growth: i) strategic partnerships to extent Eles portfolio of services and solutions; ii) new products launches; iii) new market entry; iv) integration of ESG principles.

FY21-23E estimates update

Following Eles FY21 guidance confirmation and Eles 1H21 results in line with Company' outlook and with our FY21 projections, we decided to confirm our P&L estimates. In 2021E-2023E we thus confirm our sales growth from €23mln to €39.2mln, with a CAGR at 29.4%. However, main estimates changes relate to Operating Net Working Capital projections, which is now expected to increase due to the rise of raw material costs and because of supply chain disruption caused by the closing during the pandemic. Moreover, following the warrants exercise, we improved our net cash estimates at €4.3mln from net debt at €300k previously seen. Following the ONWC projections increase, FCFs in the period are now expected at €4.1mln from previous €6.3mln.

Potential main risks to our estimates are: on the downside, a potential longer than expected weakness in the automotive industry, intensifying competition and a longer than expected shortage; on the upside, stronger and quicker response to semiconductor shortage.

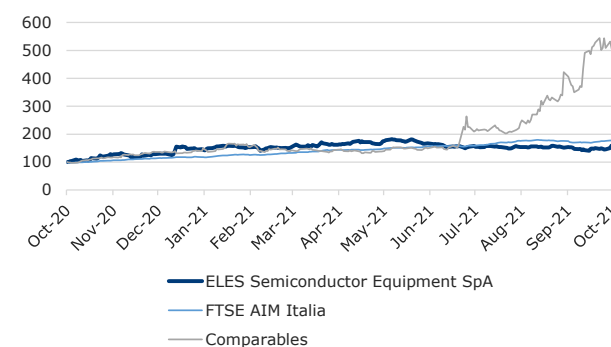
Valuation: Price Target reduced to €5.6/share; BUY confirmed

During the pandemic, the importance of semiconductors became crucial. The rapid increase of new trends such as e-commerce and work from home lead to a microchip shortage. Market multiples rerating has been the immediate consequence. However, we decided to include this rerating only partially, given the uncertainty of its long-term sustainability. Our valuation then includes a 20% weight on multiples and an 80% weight on DCF method. This led us to a Target Price at €5.6/share, reduced from the previous €6.2/share mainly due to an increase of shares' number post warrant execution and due to a slight decrease in FCS's because of higher ONWC needs.

Target Price (€)	5.6	from	6.2	
Recommendation	BUY	from	BUY	
Price as of October 26 th			4.13	
Number of shares (mln)			13.631	
Market capitalization (€mln)			56.3	
Market segment			FTSE AIM ITALIA	
Performance			from IPO	
Absolute			+117%	
Max / Min			6.5/1.9	
Average daily volumes (*000)			56.07	
<i>(€mln)</i>	2020	2021E	2022E	2023E
Revenue	18.1	23.0	31.1	39.2
<i>yoy change</i>	3.4%	26.8%	35.6%	25.9%
EBITDA	3.5	4.5	7.1	10.0
<i>margin</i>	19.5%	19.6%	22.8%	25.5%
EBIT	1.6	2.0	4.1	6.5
<i>margin</i>	8.6%	8.9%	13.2%	16.5%
Net income	1.7	1.3	2.8	4.4
<i>margin</i>	9.3%	5.7%	8.9%	11.3%
NIC	13.9	17.4	17.5	18.0
Net debt (cash)	(0.5)	(4.3)	(6.9)	(10.9)
Equity	14.4	21.7	24.4	28.9
FCF	0.6	(2.2)	2.5	3.7

Source: Banca Profilo estimates and elaborations, Company data.

1Y Normalized Performance



Francesca Sabatini

Head of Equity Research

francesca.sabatini@bancaprofilo.it

+39 02 58408 461

Maria Teresa Di Grado

Equity Research

mariateresa.digrado@bancaprofilo.it

+39 02 58408 298

Sales Desk

+39 02 58408 478

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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.

Capital increase for Warrants exercise in third and fourth period

During the third exercise period between June 7th and June 18th, n. 4,604,012 warrants were exercised and consequently subscribed at the price of Euro 2.05 per share (at a ratio of 1 ordinary share each 2 Warrants presented for exercise) n. 2,302,006 newly issued Eles ordinary shares, for a total value of €4,719,112.30.

Further, Eiffel Investment Group has exercised all 1,200,000 warrants purchased and subscribed to 600,000 conversion Shares. In addition, it should be noted that the CEO Francesca Zaffarami also exercised the 200,000 Warrants in her possession, subscribing to 100,000 conversion Shares.

Industry growth path continues in 1H21

At the end of the fourth warrants' exercise period between 2021 July 1st and July 30th, n. 28,650 warrants were exercised and consequently subscribed at the price of €2.05 per share (at a ratio of 1 ordinary share each 2 Warrants presented for exercise) n. 14,325 newly issued Eles ordinary shares, for a total value of Euros 29,366.25.

As a consequence of the above, as at the date of this press release, there are 6,208,138 circulating Warrants.

Semiconductor sales growth continued in 1H21, though still above 2020. Capacity utilization rates remain at record levels. The biggest concern among chipmakers and equipment suppliers are the bottlenecks in various parts of the supply chain that could impact deliveries and demand. Moreover, semiconductor Capex is getting a huge boost this year as chipmakers race to add capacity to rectify the constraints on the supply chain.

Semiconductor shortage expected to persist until 2022

Multiple factors including the surge in electronics demand due to the acceleration of digital transformation during the Covid-19 pandemic led to the unprecedented shortage of semiconductor chips around the world.

The main semiconductors players have communicated important investments aimed to increase the production capacity to meet demand; however, shortages are estimated to persist until 2022.

The European Commission wants to build up chip manufacturing capacity in Europe as part of an effort to become more self-reliant on what it sees as a critical technology. Europe currently accounts for less than 10% of global chip production, although that is up from 6% five years ago. It wants to boost that figure to 20% and is exploring investing €20-30bn to make it happen.

US tech giant Intel has offered to help but it reportedly wants €8bn in public subsidies toward building a semiconductor factory in Europe. Moreover, Intel also announced in March that it intends to spend \$20bn on two new chip plants in Arizona.

Semiconductors remain solid drivers for next industrial revolution

Since semiconductors are essentials for tech innovations, their mid and long term growth remain solid; they are key for next industrial revolution. Thus, in the long run we still expect an increase in the Semiconductors Industry.

Main 1H21 Financial data and estimates (2021E-2023E)

1H21 revenues: +16.7% yoy better than its reference market

Eles 1H21 results are in line with its FY21 guidance and on track to reach our FY21 estimates. Revenue grew by 16.7% yoy, higher than growth recorded in Semiconductor Equipment in the areas representing over 90% of Group's turnover. The increase was also driven by client basis expansion, with first solutions delivered to five new clients in the USA, Israel and China. In terms of EBITDA, the Company showed an increase of 32% yoy reaching €1.8mln with margin improving to 19% from 16.9% in 1H20. At the end of June, Eles showed a net cash position of €4.9mln from previous €527k at the end of December 2020, coming mainly from warrants execution.

1H21 EBITDA +31.7% yoy

High growth perspectives driven by several initiatives

Main corporate strategy already taken in the first months of 2021, consists of:

- Clients consolidation
 - in January 2021, Eles further consolidated the relationship with an important American customer, world leader in the production of Microcontrollers, receiving a new order for the "STRIP TDBI APPROACH" which reduces production costs. This led to the introduction of the product in the Automotive market, characterized by larger selling volumes;
- Clients acquisition:
 - in January 2021, Eles received a new order to supply its Design for Test Tester Platform ART530. This new client is a world leader in Storage System supply, located in the Silicon Valley, an important market for the Semiconductor Industry;
 - in February 2021, Eles received the first order from an Israeli Startup-Up for the supply of its R.E.T.E. solution, applied to the new Image Sensor devices for the automotive sector;
 - in March 2021, a new America customer, leader in the production of Application Specific Integrated Circuit, adopted for the first time Eles R.E.T.E. test application solution to qualify new devices through this technology;
 - in May 2021, Eles announces that have received an order from a new costumer from US to start a collaboration for the development of the Aerospace & Defence applications. The partnership will be developed in two areas: collaboration on the market for the sale of ELES solution and provision of reliability services through the new Customer own laboratory.
- New Geographies:
 - in January 2021, Eles installed and made fully operational its own Art Test System at an important Q&R LAB in Taiwan with the aim to penetrate the Taiwanise market;
 - in February, an important Chinese Fabless, leader in the semiconductor market, has qualified Eles solution and related R.E.T.E. methodology for its entire supply chain;
 - new partnerships with DfT Partners and SW/Engineering Companies;
- External growth:
 - with the aim of accelerating the acquisition of new customers ELES monitors the possibility of undertaking acquisitions of companies

whose client portfolio is complementary to Eles', in areas in which the Group intends to focus its development;

- with the aim of expanding its strategic technological leadership, after having inserted a dedicated internal resource, expert of DfT (Design for Testability), the Company aims to start the scouting of Companies that develop DfT to support the design of semiconductors;
- in accordance with the servitization strategy: providing solutions and delivering results and the path undertaken for the expansion of the service portfolio, the company has also started scouting for software solutions engineering companies to accelerate its development path;
- Eles is extending its client range both in the Semiconductor Industry and in Aerospace & Defence segment in order to boost market diversification strategy taking advantages from synergies with the Test/control units/ECU lines.
- Strategic collaboration:
 - Eles announces that it has signed a collaboration with Professor Alberto Sangiovanni Vincentelli, Professor of Electrical and Computer Engineering University of California at Berkeley. Considering the common interests, Eles and Prof. Sangiovanni Vincentelli, have started an active collaboration, having as object the extension of the portfolio of services and solutions in the application of the R.E.T.E. methodology, in EDA logic, through the sharing of experiences, skills and resources.
- New products launch:
 - Eles announces that one of the most important player in the semiconductor market has released orders for 3 ART MTX systems and for the connected RETE applications and services. The Art MTX is a test platform that uses an innovative liquid cooling technology patented by Eles.
 - Eles announces that the smart MTX qualification platform has been chosen by one of the major semiconductor player for Smart Power devices for Automotive and Industrial applications, including new technologies used in electric vehicles. The platform has been developed to meet the needs of: i) all groups of devices connected to the mega-trend of Electric Vehicles; ii) the qualification of ECU, used in Automotive and in A&D.
 - SiC & GaN technologies are revolutionizing Power applications in the Automotive, Industrial, Aerospace & Defence, Laser and RF dispositive sectors. Eles is able to support the SiC & GaN Players, towards the identification of the defect drivers, proposing action to remove them from the production processes, in order to quickly reach production yields of 99% or higher, supporting the reduction of the product cost and ensuring the required reliability levels, contributing to lower diffusion barrier in the end markets.
- New market entry:
 - Eles announced that has started a strategic collaboration with Hi-Tech Solutions, a company highly specialized in designing and manufacturing the most advanced electronic computerized systems for the control, weighing and safety of equipment and vehicles of heavy mechanics related to earth moving, drilling, manufacturing and lifting. The partnership was born out of the ever-increasing need for reliability that High-Tech Solutions' customers demand of operating machines in order to avoid the risk of them stopping during the work cycle, optimizing operations to the maximum and meeting ROI requirements.
- ESG:
 - Eles has started the path of integration of ESG principles in the Company management with the wide commitment from the top

management. Consistent with the path started, Eles has obtained the system certification for the environment according to UNI ISO 14001:2015 and for the health and safety of workers according to UNI ISO 45001:2018, the internationally recognized standard for occupational health and safety introduced by the International Organization for Standardizations.

Sales CAGR 21-23 at 29.4%

Operating NWC increase due to higher raw materials costs and supply chain disruption caused by Covid-19 pandemic

Following Eles FY21 guidance confirmation and Eles 1H21 results in line with the Company' outlook and on track to our FY21 projections, we decided to confirm our old estimates regarding Profit & Loss projections. In 2021E-2023E we confirm our sales forecast growth from €23mln to €39.2mln, with a CAGR at 29.4%. However, main changes are related to our ONWC projections expected to increase due to the rise of raw material costs and because of supply chain disruption caused by the closing during the pandemic. Moreover, following the warrants exercise, we improved our net cash estimates at €4.3mln from net debt at €300k previously seen. Following the ONWC projections increase, FCFs in the period are now expected at €4.1mln from the previous seen at €6.3mln.

Potential main risks to our estimates are: on the downside, a potential longer than expected weakness in the automotive industry, intensifying competition and a longer than expected shortage; on the upside, stronger and quicker response to semiconductor shortage.

Valuation Update

DCF approach to appraise a fast growing business model

Given a strong growth of Sales and EBITDA which traduces 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).

DCF assumptions

We run a DCF model, using our projections of FCF for the explicit 2021E-2023E period, which lead to cumulated FCFs of €4.1mln (an annual average of €1.4mln) plus a Terminal Value of €64.7mln. We used a WACC of 7.2% and a perpetual growth rate of 2%.

DCF valuation: €4.9/share

The DCF method leads us to an Enterprise Value of €61.8mln (vs our previous €66.3mln) and to an Equity Value of €66.1mln (from previous €66.0mln) or €4.9/share (vs previous €5.9/share), also taking in consideration the increase of shares' number.

In our DCF assumption we include €4.3mln of net cash at the end of 2021E, whereas in our previous estimates we have included a net debt of €0.3mln.

Market multiples valuation: €8.39/share

Our relative valuation based on peers' average EV/EBITDA 2022E-2023E at 13.1x leads to an Equity Value of €114.4mln (vs previous €84mln) or €8.39/share (vs previous €7.45/share).

12-month TP reduced at €5.6/share BUY recommendation confirmed

During the pandemic, the importance of semiconductors became crucial. The rapid increase of new trends such as e-commerce and work from home lead to a microchip shortage. Market multiples rerating has been the immediate consequence. However, we decided to include this rerating only partially, given the uncertainty of its long-term sustainability. Our valuation then includes a 20% weight on multiples and an 80% weight on DCF method. This led us to a Target Price at €5.6/share, reduced from the previous €6.2/share mainly due to an increase of shares' number post warrant execution and due to a slight reduce in FCS's as a consequence of higher ONWC needs.

Given the significant potential upside on Eles' current price we confirm our BUY recommendation.

SWOT analysis

STRENGTHS	WEAKNESSES
• High innovation capability (RETE Approach) • Sophisticated IP Libraries (Entry barriers) • Zero Defect Reliability as main objective to contribute to sustainability • Highly qualified and skilled personnel • Flexible and variable cost structure	• High customer concentration • Little geographic diversification • Non-fully structured management organization • Improvable sales force
OPPORTUNITY	THREATS
• Automotive and Semiconductor macrotrend (Zero Defect requirements) • Increasing materials and technologies demand by semiconductors manufacturers (need for reliability test) • Scalable and replicable offer • M&A opportunities in US and Asia	• Trade war • Covid-19 outbreak • Sector consolidation • Innovation endurance by semiconductor manufacturers • Substitute products • Semiconductor shortage

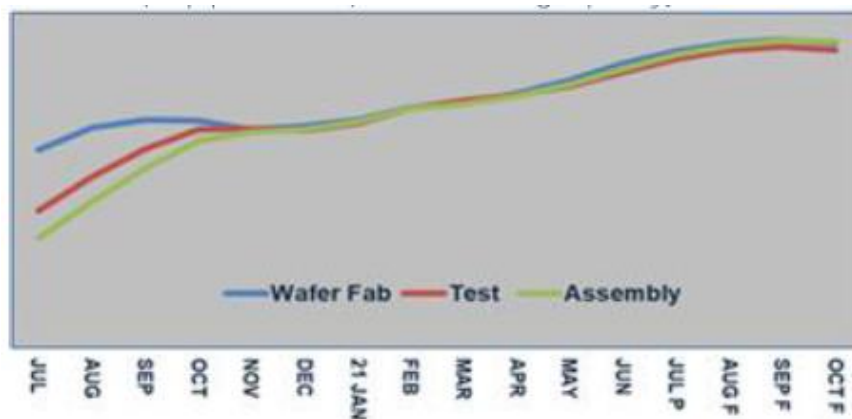
Semiconductor's Industry update

Market trends update

The growth path continues in 1H21

Semiconductor sales growth continued in 1H21, though still above 2020. Capacity utilization rates remain at record levels. The biggest concern among chipmakers and equipment suppliers are the bottlenecks in various parts of the supply chain that could impact deliveries and demand. Moreover, semiconductor Capex is getting a huge boost this year as chipmakers race to add capacity to rectify the constraints on the supply chain.

Figure 1: Capacity utilization rate (chip production/manufacturing capacity)



Source: VLSI, September 2021

1H21 global demand for Semiconductor Equipment at +50% yoy

The demand for Semiconductor Equipment remained solid in the 1H21 driven by investments to increase production capacity, which concerned all families of semiconductor devices, recording a 50% growth compared to the previous period, but with uneven dynamics by geographical area and product category. Growth was driven by demand in Korea, Taiwan and China, balancing lower growth in the other geographies (North America, Europe and Rest of the World), with an average growth of 12% and where Eles has a greater presence. In terms of product categories, IC Automated Test Equipment remained solid in the 1H21 with overall estimated industry growth of 24%, with a double-digit growth across all product categories.

Figure 2: Worldwide semiconductor Equipment market 1H21 vs 1H20

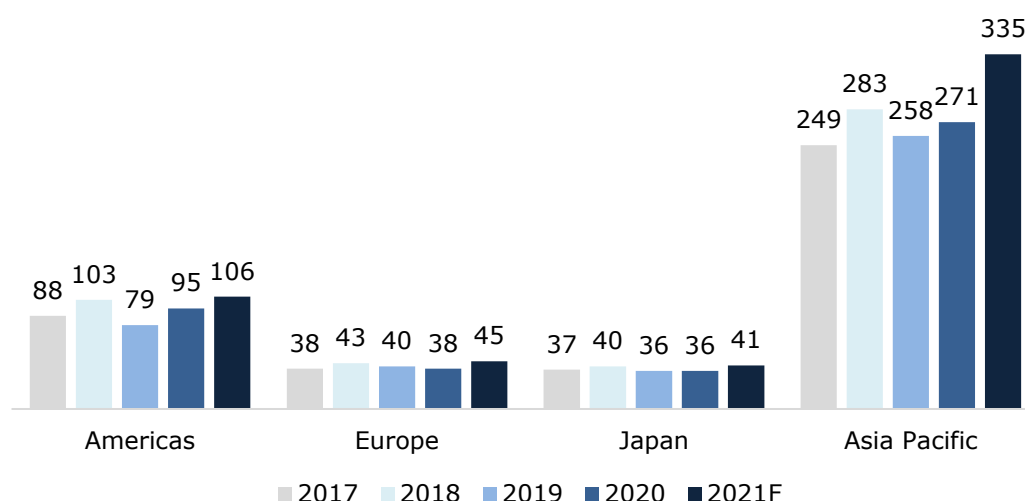
Worldwide Semiconductor Equipment (\$bn)	1H21	1H20	1H21 vs 1H20	
Taiwan	10.8	7.5	43%	Target areas of the development plan
Korea	13.9	7.8	78%	
Japan	3.4	3.4	1%	
China	14.2	8.1	75%	More than 90% of Eles Revenues
North America	3.0	3.6	-15%	
Europe	1.3	1.1	17%	
Rest of the World	1.9	0.8	129%	
Total	48.5	32.3	50%	

Source: SEMI, December 2020

Chinese market as main market driver

In 2021, is expected a growth demand in all geographic area, especially in Asia that represents the main market (\$271bn in 2020). The main Asian market driver will be the China development plan "Made in China 2025" issued on 2015 and confirmed in May 2021. The plan has the goal "IC Made in China", to reach the global leadership before 2030. The plan identifies seven frontline technology sectors of which China should increase its innovation capabilities including: i) artificial intelligence, ii) quantum computing and iii) semiconductors. These areas are declared strategic for China's growth and national security, aiming to reduce the dependence to US imports, also in consideration of the 2020 Ban. All these factors encourage local production that is expected to increase to \$335bn at the end of 2021.

Figure 3: Worldwide semiconductor market value (\$bn)



Source: WSTS

Semiconductor shortage expected to persist until 2022

Multiple factors including the surge in electronics demand due to the acceleration of digital transformation during the Covid-19 pandemic led to the unprecedented

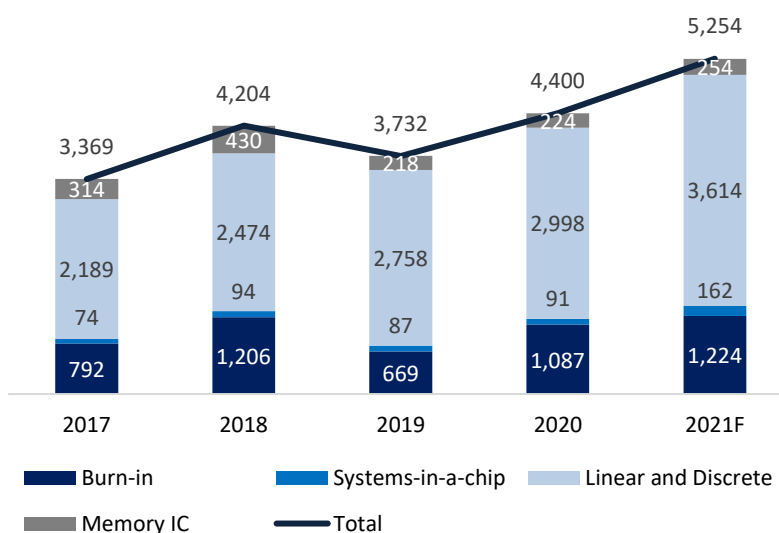
shortage of semiconductor chips around the world.

The main semiconductors players have communicated important investments aimed to increase the production capacity to meet demand; however, shortages are estimated to persist until 2022.

The European Commission wants to build up chip manufacturing capacity in Europe as part of an effort to become more self-reliant on what it sees as a critical technology. Europe currently accounts for less than 10% of global chip production, although that is up from 6% five years ago. It wants to boost that figure to 20% and is exploring investing €20-30bn to make it happen.

US tech giant Intel has offered to help but it reportedly wants €8bn in public subsidies toward building a semiconductor factory in Europe. Moreover, Intel also announced in March that it intends to spend \$20bn on two new chip plants in Arizona.

Figure 4: Worldwide sales IC Automated Test Systems History and Forecast



Source: IC Automated Test Systems History and Forecast

IC Automated Test Systems at +19% yoy

The IC Automated Test Systems sector is expected to grow 19% yoy in 2021 driven by double-digit growth across all product categories. The long-term prospects for both semiconductors and test equipment remain positive.

Semiconductor Industry crucial on the geopolitical front

As regards Semiconductor scenario, the Industry has become strategic in new supply chain. Concern around the length of these sensitive technologies' value chains and the need to reduce dependence on foreign suppliers, become central to political agendas and industrial plans. The American Jobs Plan, the European Digital Compass 2030, and China's 14th five-year plan all contain specific measures for the semiconductor sector, which has become a stage for genuine geopolitical competition. In addition, the Next Generation EU and National Recovery and Resilience Plan (NRRRP) mobilizes over €300bn.

Shortage seems to end in the next year

The biggest concern among chipmakers are the bottlenecks in various part of the supply chain that could impact deliveries and demand. Entire sectors have been forced to review and temporarily suspend their production plans, especially the automotive industry. In this regard, Boston Consulting Group, in September estimated that the chip shortage, despite the recovery seen in the 1H21, will reduce global auto production 2021 bringing it on par with the 2020 level when automakers were hit by the pandemic. Chipmakers are very positive about their prospects, though they expect shortages to abate next year as more capacity comes online.

*USA-China Ban
expected to boost
Chinese semiconductor
Industry*

US control and bans on national and foreign technology transfers to Chinese end-users have slowed the rise of China's semiconductor industry, according to ISPI, having reverberations also on a global level. As a result, industrial policies have become more urgent for Beijing in order to develop China's capacity to produce 7nm (or smaller) chips.

Group structure post Warrant exercise

The warrant scenario

*Capital increase for
Warrants exercise in
third and fourth period*

During the third exercise period between June 7th and June 18th, n. 4,604,012 warrants were exercised and consequently subscribed at the price of Euro 2.05 per share (at a ratio of 1 ordinary share each 2 Warrants presented for exercise) n. 2,302,006 newly issued Eles ordinary shares, for a total value of €4,719,112.30. Further, Eiffel Investment Group has exercised all 1,200,000 warrants purchased and subscribed to 600,000 conversion Shares. In addition, it should be noted that the CEO Francesca Zaffarami also exercised the 200,000 Warrants in her possession, subscribing to 100,000 conversion Shares.

At the end of the fourth warrants' exercise period between 2021 July 1st and July 30th, n. 28,650 warrants were exercised and consequently subscribed at the price of €2.05 per share (at a ratio of 1 ordinary share each 2 Warrants presented for exercise) n. 14,325 newly issued Eles ordinary shares, for a total value of Euros 29,366.25. As a consequence of the above, as at the date of this press release, there are 6,208,138 circulating Warrants.

Table 1: Company's shareholding structure post warrants subscription

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
Antonio Zaffarami	4,222,862	4,222,862	-	4,222,862	31.0%
Carla Franceschin	1,284,474	1,284,474	-	1,084,474	8.0%
Francesca Zaffarami	588,472	588,472	200,000	688,472	5.1%
Free float	5,061,192	5,061,192	4,629,487	7,635,623	56.0%
Total	11,157,000	11,157,000	4,829,487	13,631,431	100.0%

Source: Banca Profilo elaborations on Company data

*Capital increase for
Warrants exercise in
fourth period*

Following warrants execution, the number of new shares increase to 13,6mln. Zaffarami's family owns the 44% of Eles group.

Figure 5: Eles warrant price trend



Source: Banca Profilo elaborations on Company data

Figure 6: Eles warrant V exercise period scenario

	Strike price	Avg warrant price	Avg stock price	N° of warrants exercised
Warrant I° exercise period (1st-31st July 20)	€2.0	€0.76	€2.96	119,375
Warrant II° exercise period (1st-30th Nov 20)	€2.0	€0.70	€3.04	77,450
Warrant III° (7th -18th June 21)	€2.05	€1.06	€4.04	4,604,012
Warrant IV° (1st-31st July 21)	€2.05	€1.14	€4.56	28,650
Warrant V° (1st-30th Nov 21) exercise period scenario as today	€2.05 +	€1.00	< €3.84	
	In the money			

Source: Banca Profilo elaborations on Company data

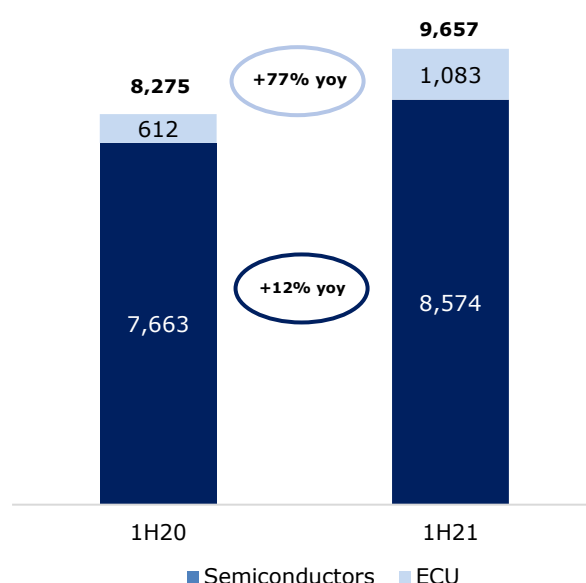
Main operating and financial 1H21 data better than its reference market

1H21 revenues: +16.7% yoy better than its reference market

Eles 1H21 results are in line with its FY21 guidance. Thanks to its strategic position and its operational management, the Group recorded a sales growth of 16.7% yoy, higher than the growth recorded in Semiconductor Equipment in the geographical areas that represent over 90% of the Group's turnover. Moreover, the increase was also driven by client basis expansion, with first solutions delivered to five new clients in the USA, Israel and China.

In terms of product categories, IC Automated Test Equipment remained solid in the first half of 2021 with overall estimated industry growth of 24%, with double digit growth across all product categories.

Figure 7: Eles revenues 1H20 vs 1H21 (Euro x 1.000)



Source: Banca Profilo elaborations on Company data

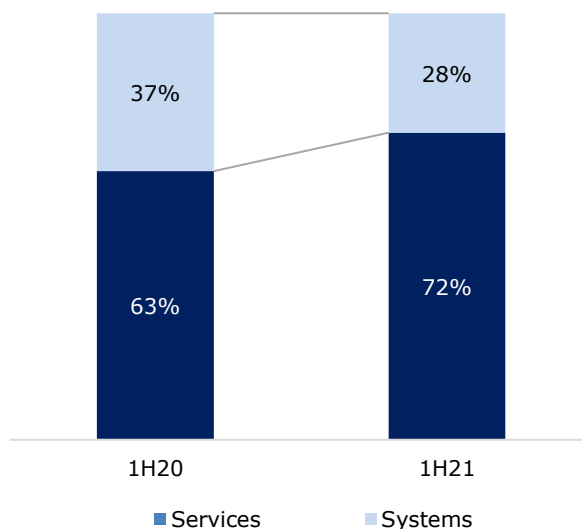
Semiconductors represent almost the 90% of sales

In 1H21, revenues from Semiconductor line recorded a 12% yoy increase in the period, thanks to the strong restart of demand of semiconductor in the 2H20 that remained solid in 1H21 and to the proposition of the Test for Reliability (TfR) approach, and of the R.E.T.E. offer.

Revenues from the Electronic Control Unit (ECU) line grew by 77% yoy, with €1.1mln of sales, mainly driven by the recovery of Automotive Industry in the period and supported by the Industry and Defence.

Whereas, the share of service revenues amounted to approximately €6.9mln up 33% yoy and represented 72% of sales.

Figure 8: Revenue breakdown 1H20 vs 1H21 by activity

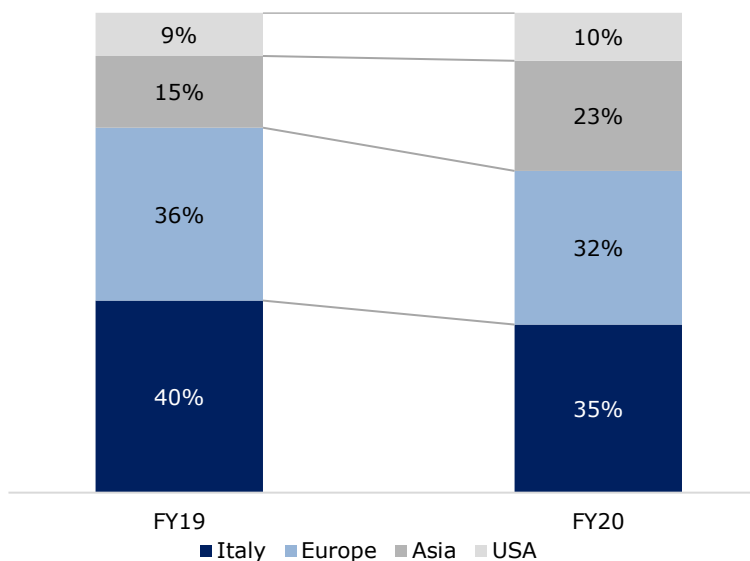


Source: Banca Profilo elaborations on Company data

Eles increase its foreign presence

Export sales accounted for the 65% of revenues, returning to the pre-pandemic level, with a strong presence in EMEA accounted for the 32% of sales (excluding Italy), followed by Asia with the 23% and by America with the 10.1%.

Figure 9: Revenue breakdown 1H20 vs 1H21 by Geography



Source: Banca Profilo elaborations on Company data

A better mix led to a low costs' incidence on revenues

As regards Eles cost's structure, the main expense is represented by raw material at €4.4mln. Nonetheless the increase in raw material costs overall the world due to supply chain disruption caused by Covid-19, Eles slightly increase its incidence on 46% (43% in the 1H20).

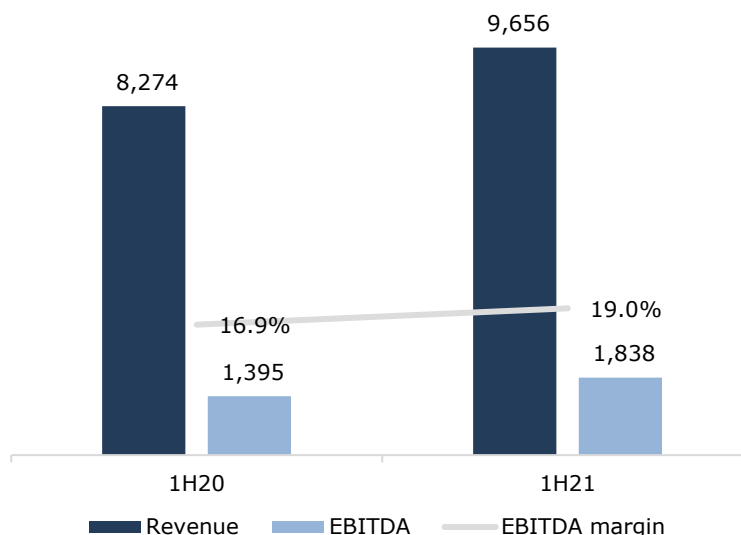
As regards main fixed expenses, labour costs stood at €2.3mln. The incidence on revenues slightly decreased even though the strengthening of the organizational structure, partially mitigated by the capitalization of the costs incurred in the period for the development of new innovative products.

1H21 EBITDA +31.7% yoy

In the 1H21, the EBITDA increase by 31.7% yoy standing at €1.8mln, with an EBITDA margin improving at 19% from the previous 16.9%. The growth is mainly due to the different mix of products and due to the increase in revenues which allowed to reduce

the incidence of overhead costs. This result is even more positive considering that the strengthening of the organizational structure, whose economic results are not yet fully reflected in the current results.

Figure 10: Eles revenue and margins 1H20 vs 1H21 (€mln and %)



Source: Banca Profilo elaborations and estimates on Company data

1H21 net income at
€751k

Finally, net income stood at €751k, almost doubling from €434k in 1H20

Table 1: Eles profit and loss 1H20 vs 1H21

Profit & Loss (€/mln)	1H20	1H21
Revenues	8.3	9.7
Others	0.5	0.8
Value of production	8.8	10.5
yoy	-11.6%	19.2%
Raw materials	(3.7)	(4.4)
Service costs	(1.6)	(1.9)
Other operating costs	(0.1)	(0.1)
Value added	3.4	4.1
margin	41.0%	42.3%
Labour costs	(2.0)	(2.3)
EBITDA	1.4	1.8
margin	16.9%	19.0%
D&A	(0.7)	(0.7)
Provision for risks	(0.0)	(0.1)
EBIT	0.6	1.0
margin	7.6%	10.4%
Net financial expenses	0.0	(0.0)
EBT	0.6	1.0
Taxes	(0.2)	(0.2)
tax rate	33.2%	24.2%
Net profit	0.4	0.8
margin	5.2%	7.8%

Source: Banca Profilo elaborations on Company data

Balance Sheet:
New investments to
finance R&D activity

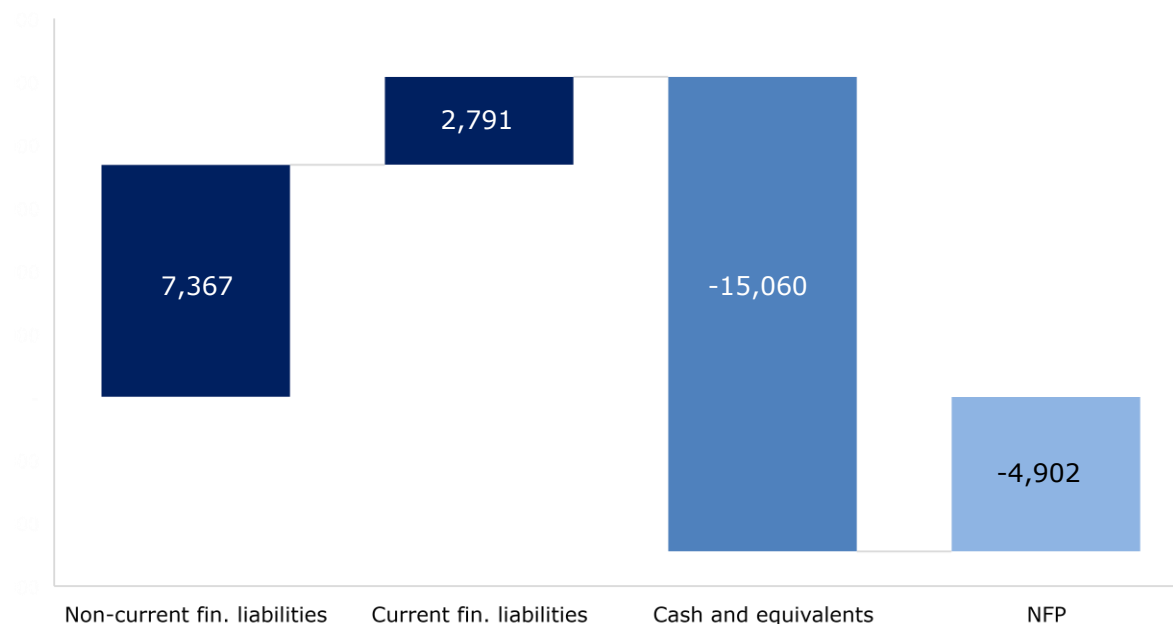
Net cash at €4.9mln
from the previous €527
in the FY20

On the Balance Sheet side, at the end of 1H21, Eles reported:

- Fixed asset at €8.9mln, increasing by €418k as a result of new investments net of depreciation. Investments in the 1H21 amount to €1.1mln of which €0.8mln in R&D activity, that remains the largest investment area and represents a key factor to preserve the technological leadership of the Company and to implement its development plan;
- Operating Net Working Capital stood at €5.9mln, reporting an increase of €330k, due to an increase in trade receivables and inventories linked to the increase in sales volumes, partially offset by the increase in trade payables;
- Shareholders' Equity increase to €19.3mln from the previous €14.4mln as a consequence of the Warrants third exercise period where 4,604,012 warrants has been exercised implying the issue of 4,604,012 newly ordinary Eles' shares;
- Other current assets/liabilities reduced to €335 from the previous €761 in the FY20 due to the use of tax credit accrued at 31 December 2020 as compensation.

At the end of 30 June 2021, Eles showed net cash of €4.9mln from net cash of €527k.

Figure 11: Eles Net Financial Position 1H21 (€ x 1,000)



Source: Banca Profilo elaborations on Company data

Table 2: Eles balance sheet 1H20 vs 1H21

Balance Sheet (€/mln)	1H20	2020	1H21
Operating NWC	6.3	5.5	5.9
Fixed assets	9.2	8.5	8.9
Net Invested Capital	15.3	13.9	14.4
Equity	12.9	14.4	19.3
Net debt	2.4	(0.5)	(4.9)

Source: Banca Profilo elaborations on Company data

Strategy and estimates

Corporate strategies

High growth perspectives driven by several initiatives

Main corporate strategy already taken in the first months of 2021, consists of:

- Clients consolidation
 - in January 2021, Eles further consolidated the relationship with an important American customer, world leader in the production of Microcontrollers, receiving a new order for the "STRIP TDBI APPROACH" which reduces production costs. This led to the introduction of the product in the Automotive market, characterized by larger selling volumes;
- Clients acquisition:
 - in January 2021, Eles received a new order to supply its Design for Test Tester Platform ART530. This new client is a world leader in Storage System supply, located in the Silicon Valley, an important market for the Semiconductor Industry;
 - in February 2021, Eles received the first order from an Israeli Startup-Up for the supply of its R.E.T.E. solution, applied to the new Image Sensor devices for the automotive sector;
 - in March 2021, a new America customer, leader in the production of Application Specific Integrated Circuit, adopted for the first time Eles R.E.T.E. test application solution to qualify new devices through this technology;
 - in May 2021, Eles announces that have received an order from a new costumer from US to start a collaboration for the development of the Aerospace & Defence applications. The partnership will be developed in two areas: collaboration on the market for the sale of ELES solution and provision of reliability services through the new Customer own laboratory.
- New Geographies:
 - in January 2021, Eles installed and made fully operational its own Art Test System at an important Q&R LAB in Taiwan with the aim to penetrate the Taiwanise market;
 - in February, an important Chinese Fabless, leader in the semiconductor market, has qualified Eles solution and related R.E.T.E. methodology for its entire supply chain;
 - new partnerships with DfT Partners and SW/Engineering Companies;
- External growth:
 - with the aim of accelerating the acquisition of new customers ELES monitors the possibility of undertaking acquisitions of companies whose client portfolio is complementary to Eles', in areas in which the Group intends to focus its development;
 - with the aim of expanding its strategic technological leadership, after having inserted a dedicated internal resource, expert of DfT (Design for Testability), the Company aims to start the scouting of Companies that develop DfT to support the design of semiconductors;
 - in accordance with the servitization strategy: providing solutions and delivering results and the path undertaken for the expansion of the service portfolio, the company has also started scouting for software solutions engineering companies to accelerate its development path;
 - Eles is extending its client range both in the Semiconductor Industry and in Aerospace & Defence segment in order to boost market diversification strategy taking vantages from synergies with the Test/control units/ECU lines.

- Strategic collaboration:
 - Eles announces that it has signed a collaboration with Professor Alberto Sangiovanni Vincentelli, Professor of Electrical and Computer Engineering University of California at Berkeley. Considering the common interests, Eles and Prof. Sangiovanni Vincentelli, have started an active collaboration, having as object the extension of the portfolio of services and solutions in the application of the R.E.T.E. methodology, in EDA logic, through the sharing of experiences, skills and resources.
- New products launch:
 - Eles announces that one of the most important player in the semiconductor market has released orders for 3 ART MTX systems and for the connected RETE applications and services. The Art MTX is a test platform that uses an innovative liquid cooling technology patented by Eles.
 - Eles announces that the smart MTX qualification platform has been chosen by one of the major semiconductor player for Smart Power devices for Automotive and Industrial applications, including new technologies used in electric vehicles. The platform has been developed to meet the needs of: i) all groups of devices connected to the mega-trend of Electric Vehicles; ii) the qualification of ECU, used in Automotive and in A&D.
 - SiC & GaN technologies are revolutionizing Power applications in the Automotive, Industrial, Aerospace & Defence, Laser and RF dispositive sectors. Eles is able to support the SiC & GaN Players, towards the identification of the defect drivers, proposing action to remove them from the production processes, in order to quickly reach production yields of 99% or higher, supporting the reduction of the product cost and ensuring the required reliability levels, contributing to lower diffusion barrier in the end markets.
- New market entry:
 - Eles announced that has started a strategic collaboration with Hi-Tech Solutions, a company highly specialized in designing and manufacturing the most advanced electronic computerized systems for the control, weighing and safety of equipment and vehicles of heavy mechanics related to earth moving, drilling, manufacturing and lifting. The partnership was born out of the ever-increasing need for reliability that High-Tech Solutions' customers demand of operating machines in order to avoid the risk of them stopping during the work cycle, optimizing operations to the maximum and meeting ROI requirements.
- ESG:
 - Eles has started the path of integration of ESG principles in the Company management with the wide commitment from the top management. Consistent with the path started, Eles has obtained the system certification for the environment according to UNI ISO 14001:2015 and for the health and safety of workers according to UNI ISO 45001:2018, the internationally recognized standard for occupational health and safety introduced by the International Organization for Standardizations.

Figure 12: Eles Growth leverages

Growth Leverages: 2021 takeaways ... to be continued



Source: Company data

Focus on: 2021 estimates revision

Confirming our Profit & Loss estimates

Following Eles FY21 guidance confirmation and Eles 1H21 results in line with the Company' outlook and on track to our FY21projections, we decided to mainly confirm our old estimates, especially regarding the Profit & Loss projections that remain the same as our previous Company update.

Our sales forecasts confirm Eles' main organic growth drivers: i) its strategic and unique market positioning; ii) innovative products which will exploit the TBDI market; iii) strategic international partnerships; iv) new customers' acquisition; v) strong innovation boost thanks to continuous investment in technology;

Figure 10: Eles FY21 guidance vs FY20 Banca Profilo's estimates

	FY21 Eles' guidance	FY21 Banca Profilo estimates
Revenues	€23.1mln	€23.0mln
EBITDA	€4.55	€4.5
Margin	19.7%	19.6%
EBIT	€2.24	€2.0
Margin	9.0%	8.9%
CAPEX	€4.0	€3.4

Source: Banca Profilo elaborations on Company data

Revenues estimates 21E-23E confirmed

In 2021E-2023E we confirm our sales forecast growth from €23mln expected in 2021 to €39.2mln at the end of the period, with a CAGR at 29.4%.

We now expect a slight decrease in EBITDA 2021E at €4.5mIn from previous €4.6mIn given by an increase in service costs (from €4.2mIn to €4.3mIn) reaching a margin at 19.6% from the previous 20.1%. The Capex reallocation in the period has consequence on the D&A estimated and thus on EBIT now seen at €2mIn in 2021 (vs previous €2.1mIn), €4.1mIn in 2022 (vs previous €4.0mIn) and €6.5mIn in 2023 (vs previous €6.4mIn).

As previously seen the Net profit is expected to increase from €1.3mIn in 2021E to €4.4mIn in 2023E.

Table 3: *Eles Profit & Loss estimates*

Profit & Loss (€/mIn)	2019	2020	2021E Old	2021E New	2022E Old	2022E New	2023E Old	2023E New
Revenues	17.5	18.1	23.0	23.0	31.1	31.1	39.2	39.2
yoy	-21.0%	3.4%	26.8%	26.8%	35.6%	35.6%	25.9%	25.9%
Others	0.7	1.0	0.5	0.5	0.5	0.5	0.5	0.5
Value of production	18.2	19.1	23.5	23.5	31.6	31.6	39.7	39.7
yoy	-21.9%	4.8%	35.8%	35.8%	28.5%	28.5%	0.0%	0.0%
Raw materials	(7.1)	(7.6)	(9.4)	(9.4)	(12.5)	(12.5)	(15.9)	(15.9)
Service costs	(3.7)	(3.7)	(4.2)	(4.3)	(6.0)	(6.0)	(7.9)	(7.9)
Other operating costs	(0.5)	(0.2)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Value added	7.0	7.5	9.3	9.2	12.6	12.6	15.4	15.4
margin	40.1%	41.6%	40.5%	40.0%	40.6%	40.6%	39.3%	39.3%
Labour costs	(3.8)	(4.0)	(4.7)	(4.7)	(5.5)	(5.5)	(5.4)	(5.4)
		-22%	-20%	-20%	-18%	-18%	-14%	-14%
EBITDA	3.2	3.5	4.6	4.5	7.1	7.1	10.0	10.0
margin	18.2%	19.5%	20.1%	19.6%	22.8%	22.8%	25.5%	25.5%
D&A	(1.9)	(1.8)	(2.4)	(2.3)	(2.9)	(2.8)	(3.4)	(3.3)
Provision for risks	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
EBIT	1.2	1.6	2.1	2.0	4.0	4.1	6.4	6.5
margin	6.8%	8.6%	9.0%	8.9%	12.9%	13.2%	16.4%	16.6%
Net financial expenses	(0.2)	(0.1)	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
Extraordinary items	-	-	-	-	-	-	-	-
EBT	1.0	1.5	1.9	1.9	3.9	4.0	6.3	6.4
Taxes	(0.2)	0.2	(0.6)	(0.6)	(1.2)	(1.2)	(1.9)	(1.9)
tax rate	17.0%	-16.1%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Net profit	0.8	1.7	1.3	1.3	2.7	2.8	4.4	4.4

Source: Banca Profilo elaborations on Company data

Increasing stock value due to higher raw materials price

On the Balance sheet side:

- following the increase of raw materials due to Covid-19 supply chain disruption we expect an increase in Eles stock from €4.8mIn previous estimated to €5.7mIn in 2021E to €8.6mIn in 2023E (vs previous €7.4mIn estimated). Including also the increase in accounts receivables over the period, this led us to an increase in Operating Net Working Capital at €8mIn in 2021E (previous €6.4mIn) to €10mIn in 2023E (vs previous €7.9mIn) with an average incidence on sales that increase from 24% to 33%;
- we just consider a small reduction in FY21E Capex from €3.8mIn to €3.5mIn due to a postponement in the following years. We expect most of the Capex to be addressed to intangible investments due to the importance of R&D in Eles business; The total Capex in the period 21E-23E almost remain the same moving from €8.8mIn previously estimated to €8.7mIn now seen.

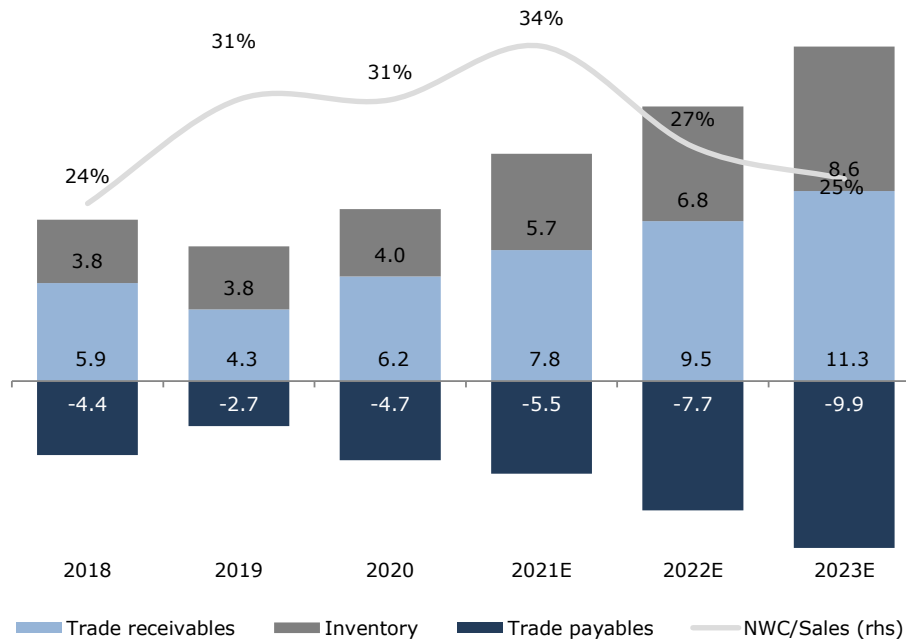
Net cash at €4.3mIn from previous net debt at €0.3mIn

Given: i) the estimated improvement in operating net working capital ii) the increase in Group Equity due to warrants exercise that contribute to a liquidity at the end of 1H21 at €15mIn we thus improve our net cash estimates at €4.3mIn, from the previous net debt seen at €300k.

2021E-23E FCF at €4.1mIn due to NWC absorption

Overall, 21E-23E FCFs are expected at €4.1mIn, from previous seen at €6.3mIn reflecting higher Net Working Capital cash absorption.

Figure 14: Net working capital composition and dynamics



Source: Banca Profilo elaborations and estimates on Company data

Table 4: Eles Balance Sheet 2019-2023E

Balance Sheet (€/mln)	2019	2020	2021E Old	2021E New	2022E Old	2022E New	2023E Old	2023E New
Stock	3.8	4.0	4.8	5.7	6.2	6.8	7.4	8.6
Accounts receivables	4.3	6.2	7.0	7.8	8.5	9.5	10.0	11.3
Accounts payables	(2.7)	(4.7)	(5.5)	(5.5)	(7.4)	(7.7)	(9.6)	(9.9)
Operating Net Working Capital	5.4	5.5	6.4	8.0	7.3	8.7	7.9	10.0
% on sales	31%	31%	28%	35%	23%	28%	20%	26%
Other current assets & liabilities	-	-	-	-	-	-	-	-
Net Working Capital	5.4	5.5	6.4	8.0	7.3	8.7	7.9	10.0
Intangibles	3.9	4.3	5.6	5.7	6.0	5.9	5.9	5.6
Materials	3.9	3.8	4.0	3.5	3.2	3.1	2.4	2.7
Financials	1.0	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Fixed assets	8.8	8.5	9.9	9.6	9.6	9.4	8.6	8.7
Funds	(0.9)	(0.9)	(1.0)	(1.0)	(1.3)	(1.3)	(1.5)	(1.5)
Other non current assets & liabilities	1.2	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Net Invested Capital	14.6	13.9	16.1	17.4	16.4	17.5	15.8	18.0
Equity	12.5	14.4	15.8	21.7	18.5	24.4	22.9	28.9
Share capital	4.0	4.1	4.1	5.2	4.1	5.2	4.1	5.2
Reserves	7.7	8.7	10.4	15.1	11.7	16.4	14.4	19.2
Accumulated profit/loss	-	-	-	-	-	-	-	-
Net profit	0.8	1.7	1.3	1.3	2.7	2.8	4.4	4.4
Minorities	-	-	-	-	-	-	-	-
Net debt (cash)	2.1	(0.5)	0.3	(4.3)	(2.1)	(6.9)	(7.1)	(10.9)
Liabilities	14.6	13.9	16.1	17.4	16.4	17.5	15.8	18.0

Source: Banca Profilo elaborations and estimates on Company data

Table 5: *Eles Free Cash Flow evolution 2019-2023E*

Cash flow (€/mln)	2019	2020	2021E	2022E	2023E
EBIT	1.2	1.6	2.0	4.1	6.5
taxes	(0.2)	(0.5)	(0.7)	(1.4)	(2.3)
NOPAT	1.0	1.0	1.3	2.7	4.2
D&A	1.9	1.8	2.3	2.8	3.4
Operating cash flow	2.9	2.8	3.6	5.5	7.6
Operating Net Working Capital change	(0.1)	(0.2)	(2.5)	(0.6)	(1.3)
Other funds	(0.5)	0.1	0.1	0.3	0.2
Capex	(2.4)	(2.1)	(3.4)	(2.6)	(2.7)
FCF	(0.1)	0.6	(2.2)	2.5	3.7

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;
- intensifying competition;
- longer than expected weakness in the Automotive industry;
- global supply chain management challenges;
- semiconductor shortage long-lasting.

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: 2020E-2023E cumulated FCFs at €4.1mln; €1.4mln yearly FCF on average

To run a DCF model, we use our projections of unlevered FCFs in the 2021E-2023E explicit period: €4.1mln cumulated and €1.4mln on average (vs our previous estimates of €6.3mln and €2.1mln respectively). Compared to our previous estimates, we are now considering higher Operating Net Working Capital absorption in order to take in consideration the main risks derived from Covid-19: i) supply chain disruption; ii) raw material increase. This led us to ONWC absorption at €4.5mln from €2.4mln previously considered

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

- an average yearly unlevered FCF of €3.7mln (from previous €4.8mln);
- 2% perpetual growth rate (unchanged).

Table 6: Unlevered FCFs

Cash flow (€/mln)	2019	2020	2021E	2022E	2023E	TV
EBIT	1.2	1.6	2.0	4.1	6.5	
taxes	(0.2)	(0.5)	(0.7)	(1.4)	(2.3)	
NOPAT	1.0	1.0	1.3	2.7	4.2	
D&A	1.9	1.8	2.3	2.8	3.4	
Operating cash flow	2.9	2.8	3.6	5.5	7.6	
Operating Net Working Capital change	(0.1)	(0.2)	(2.5)	(0.6)	(1.3)	
Other funds	(0.5)	0.1	0.1	0.3	0.2	
Capex	(2.4)	(2.1)	(3.4)	(2.6)	(2.7)	
FCF	(0.1)	0.6	(2.2)	2.5	3.7	3.7

Source: Banca Profilo estimates and elaborations

*DCF assumptions:
WACC at 7.2% from
previous 8.2% due to a
lower beta*

We apply a WACC of 7.2% (vs previous 8.2%) derived from:

- risk free rate equal to 3.0%, as implicitly expected by consensus on the 30Y Italian BTP yield curve (moving average of the last 100 days);
- market risk premium of 5.5%;
- beta of 1.1 (vs previous 1.3), coming from the average of a selected sample of listed companies in the Facility Management industry;
- debt to equity target structure with a 20% weight on Debt (previous at 15%).

Table 7: WACC calculation

WACC Calculation	
perpetual growth rate	2.0%
WACC	7.2%
risk free rate (30Y)	3.0%
equity risk premium	5.5%
beta	1.1
KE	8.8%
cost of debt	1.5%
tax rate	35%
KD	1.0%

Source: Banca Profilo estimates and elaborations

*DCF valuation:
€4.9/share*

The DCF method leads us to an Enterprise Value of €61.8mln (vs our previous €66.3mln) and to an Equity Value of €66.1mln (from previous €66.0mln) or €4.9/share (vs previous €5.9/share).

In our DCF assumption we include €4.3mln of net cash at the end of 2021E, whereas in our previous estimates we have included a net debt of €0.3mln.

Table 8: DCF valuation

DCF Valuation	2021E	2022E	2023E	TV
Free Cash Flows (€/mln)	(2.2)	2.5	3.7	3.7
years	1.0	2.0	3.0	
discount factor	0.9	0.9	0.8	
NPV Cash flows (€/mln)	(2.0)	2.2	3.0	
Sum of NPVs (€/mln)	(2.0)	0.2	3.2	
Terminal Value (€/mln)				72.2
NPV Terminal Value (€/mln)				58.6
Enterprise Value (€/mln)				61.8
Net debt/ (cash) end of 2021E (€/mln)				(4.3)
Equity Value (€/mln)				66.1
number of shares (mln)				13.6
Per share value (€)				4.9

Source: Banca Profilo estimates and elaborations

Eles competitive arena

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.

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 FY20 the company registered revenues for \$22.3mln.

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 FY20, the Group reached revenues of JPY 312.8bn (€2.5bn).

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 FY19 total revenue), and Printed Circuit Board Test. In FY19, the company registered revenues for TWD 15,533mln (€463mln).

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 (93% of FY19 total revenue), and Printed Circuit Board Test. In FY19, the company reached revenue of \$636mln.

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 \$2.3 bn. It operates through 4 main segments:

- Semiconductor Test segment 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 which comprises of defence and aerospace, storage test, and production board test business unit;
- Wireless Test segment 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 which supplies collaborative robots that work side by side with production workers

Table 12: Market multiples

Company	Country	Currency	Price	Market Cap	Net debt	Minorities	EV
<i>(mln)</i>							
Aehr Test Systems	UNITED STATES	U.S. Dollar	21.27	564.869	197.000	0.0	761.9
Advantest Corp	JAPAN	Japanese Yen	9,060.00	1,807,853	-68,291	0.0	1,739,561.5
Chroma ATE	TAIWAN	Taiwan Dollar	174.50	73,575	-1,396	325.5	72,504.2
Cohu	UNITED STATES	U.S. Dollar	31.44	1,528	181	0.0	1,709.1
Teradyne	UNITED STATES	U.S. Dollar	117.28	19,348	-1,192	0.0	18,155.6

Source: Banca Profilo elaborations on elaborations on FactSet (as of 25th October 2021)

EV/EBITDA
2022E-2023E
13.1x

Our sample of similar players active in the Semiconductors' test Industry shows an average EV/EBITDA 2022E-2023E of 13.1x.

Table 13: Sample benchmarking

Company	EV / Sales		EV / EBITDA	
	2022E	2023E	2022E	2023E
Aehr Test Systems	37.7x	n.a.	n.a.	n.a.
Advantest Corp	4.2x	4.1x	15.7x	13.6x
Chroma ATE	3.5x	3.2x	17.9x	13.1x
Cohu	1.9x	1.8x	8.8x	8.2x
Teradyne	4.7x	4.4x	14.1x	13.3x
Mean	10.4x	3.4x	14.1x	12.0x
Eles	2.0x	3.4x	10.4x	6.6x

Source: Banca Profilo elaborations on elaborations on FactSet (as of 25th October 2021)

Relative Valuation on multiples

Market multiples valuation: €8.39/share

Our relative valuation based on peers' average EV/EBITDA 2022E-2023E at 13.1x leads to an Equity Value of €114.4m (vs previous €84m) or €8.39/share (vs previous €7.45/share).

Table 14: Market multiples valuation

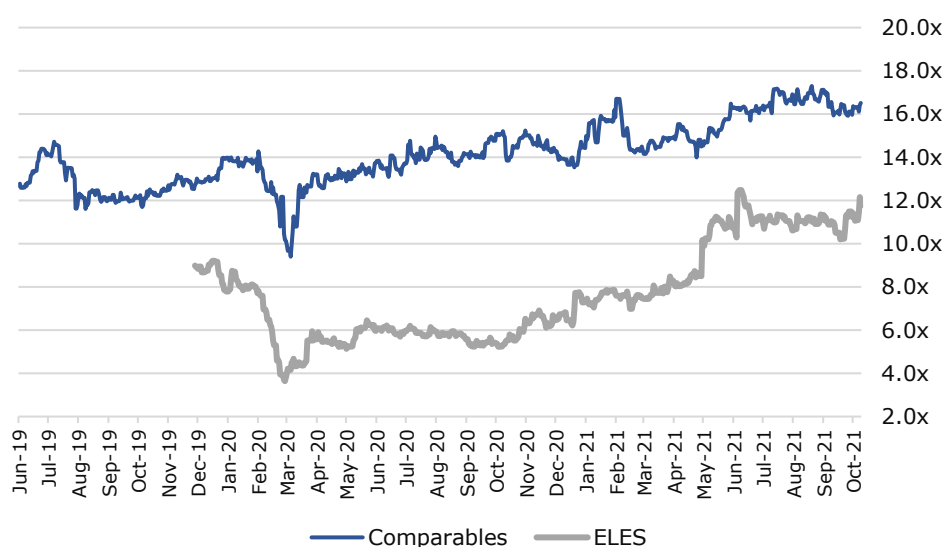
Relative Valuation on market multiples 2022E-2023E			
EV/EBITDA		EBITDA	
2022E	2023E	2022E	2023E
14.1x	12.0x	7.1	10.0
ENTERPRISE VALUE		NET DEBT 2021E	
100.0	120.3	-4.3	
EQUITY VALUE			
114.4			
Price per share		8.39	

Source: Banca Profilo elaborations on elaborations on FactSet (as of 6th May 2021)

12-month TP reduced at €5.6/share BUY recommendation confirmed

During the pandemic, the importance of semiconductors became crucial. The rapid increase of new trends such as e-commerce and work from home lead to a microchip shortage. Market multiples rerating has been the immediate consequence. However, we decided to include this rerating only partially, given the uncertainty of its long-term sustainability. Our valuation then includes a 20% weight on multiples and an 80% weight on DCF method. This led us to a Target Price at €5.6/share, reduced from the previous €6.2/share mainly due to an increase of shares' number post warrant execution and due to a slight decrease in FCS's because of higher ONWC needs. Given the significant potential upside on Eles' current price we confirm our BUY recommendation.

Figure 15: 1FY forward comparables EV/EBITDA rerating (1Y)



Source: Banca Profilo elaborations on Bloomberg data

EV/EBITDA 1FY forward at its highest in the 2021

The multiple EV/EBITDA FY1 forward, touched its highest peak during the first months of 2021 reflecting the strong increased in semiconductor demand.

Figure 16: Banca Profilo's Target Prices since Eles' IPO



Source: Banca Profilo estimates and elaborations on Bloomberg data

Liquidity discount assessment

To assess the stock's liquidity, we carried out an analysis on two indicators for three different periods, all consisting of approximately 100 trading days. It emerged that Eles's average daily trading volumes are very little if compared to its free float. We would then monitor the liquidity of the stock and eventually apply a liquidity discount.

Table 15: Liquidity indicators

Liquidity indicators			
Start Date	07/06/2021	15/01/2021	25/08/2020
End Date	25/10/2021	07/06/2021	15/01/2021
Days with no trades on total trading days	0%	0%	1%
Average daily volume on free float	0.41%	0.73%	0.53%

Source: Banca Profilo estimates and elaborations on Factset data



Eles "ID Card"

Recommendation

BUY

Target Price

5.6 €

Upside

35%

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 31% stake of the Company, followed by and Carla Franceschin with a 8% stake and by Francesca Zaffarami (CEO) with 5.1%. Eles 1H21 results are in line with its FY21 guidance and on track to reach our FY21 estimates. Revenue grew by 16.7% yoy, higher than growth recorded in Semiconductor Equipment in the areas representing over 90% of Group's turnover. The increase was also driven by client basis expansion, with first solutions delivered to five new clients in the USA, Israel and China. In terms of EBITDA, the Company showed an increase of 32% yoy reaching €1.8m with margin improving to 19% from 16.9% in 1H20. At the end of June, Eles showed a net cash position of €4.9m from previous €527k at the end of December, coming mainly from warrants execution. In addition to the strategies already implemented since the beginning of the year, Eles introduced new actions to improve its market position and to drive future growth: i) strategic partnerships to extent Eles portfolio of services and solutions; ii) new products launches; iii) new market entry; iv) integration of ESG principles. Following Eles FY21 guidance confirmation and Eles 1H21 results in line with the Company' outlook and on track to our FY21 projections, we decided to confirm our old estimates regarding Profit & Loss projections. In 2021E-2023E we confirm our sales forecast growth from €23m to €39.2m, with a CAGR at 29.4%. However, main changes are related to our ONWC projections expected to increase due to the rise of raw material costs and because of supply chain disruption caused by the closing during the pandemic. Moreover, following the warrants exercise, we improved our net cash estimates at €4.3m from net debt at €300k previously seen. Following the ONWC projections increase, FCFs in the period are now expected at €4.1m from the previous seen at €6.3m.

Potential main risks to our estimates are: on the downside, a potential longer than expected weakness in the automotive industry, intensifying competition and a longer than expected shortage; on the upside, stronger and quicker response to semiconductor shortage. During the pandemic, the importance of semiconductors became crucial. The rapid increase of new trends such as e-commerce and work from home lead to a microchip shortage. Market multiples rerating has been the immediate consequence. However, we decided to include this rerating only partially, given the uncertainty of its long-term sustainability. Our valuation then includes a 20% weight on multiples and an 80% weight on DCF method. This led us to a Target Price at €5.6/share, reduced from the previous €6.2/share mainly due to an increase of shares' number post warrant execution and due to a slight decrease in FCS's as a consequence of higher ONWC needs.

SWOT Analysis

Strengths

- High innovation capability (RETE Approach)
- Sophisticated IP Libraries (Entry barriers)
- Zero Defect Reliability as main objective to contribute to sustainability
- Highly qualified and skilled personnel
- Flexible and variable cost structure

Weaknesses

- High customer concentration
- Little geographic diversification
- Non-fully structured management organization
- Improvable sales force

Opportunities

- Automotive and Semiconductor macrotrend (Requirement Zero Defect)
- M&A opportunities in US and Asia
- Increasing materials and technologies demand by semiconductor manufacturers (need for reliability test)
- Scalable & replicable offer
- Increase of global production capacity as rapid response to semiconductor shortage

Threats

- Trade war
- Sector consolidation
- Innovation endurance by semiconductor manufacturers
- Substitute products
- Covid-19 outbreak
- Semiconductor shortage

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
- Customers' consolidation and client acquisition, especially in the Automotive, Aerospace & Defence ECU testing markets

Main risks

- 🗨️ Rising price competition from international semiconductor testing players
- Less than expected growth of foreign markets
- Loss of control over NWC during internationalization
- Potential longer than expected crisis in the Automotive industry,
- Worsening impact of Covid-19 on estimates
- Potential political market risks coming from a longer than expected trade war
- Semiconductor shortage long-lasting

Eles "ID Card"

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Recommendation

BUY

Target Price

5.6 €

Upside

35%

Main Financials

(€ mln)	2019	2020	2021E	2022E	2023E
Revenues	17.5	18.1	23.0	31.1	39.2
yoy change		3.4%	26.8%	35.6%	25.9%
Value of production	18.2	19.1	23.5	31.6	39.7
yoy change		4.8%	23.0%	34.8%	25.5%
EBITDA	3.2	3.5	3.5	7.1	10.0
yoy change		10.8%	0.0%	101.1%	40.7%
margin (%)	18.2%	19.5%	15.4%	22.8%	25.5%
EBIT	1.2	1.6	2.0	4.1	6.5
margin (%)	6.8%	8.6%	8.9%	13.2%	16.5%
EBT	1.0	1.5	1.9	4.0	6.3
margin (%)	5.8%	8.0%	8.2%	12.7%	16.1%
Net income	0.8	1.7	1.3	2.8	4.4
margin (%)	4.8%	9.3%	5.7%	8.9%	11.3%
Net Debt (cash)	2.1	(0.5)	(4.3)	(6.9)	(10.9)
Shareholders Equity	12.5	14.4	21.7	24.4	28.9
Operating Net Working Capital	5.4	5.5	8.0	8.7	10.0
Fixed assets	8.8	8.5	9.6	9.4	8.7
Net invested capital	14.6	13.9	17.4	17.5	18.0
Operating Free Cash Flow	2.9	2.8	3.6	5.5	7.6
Capex and acquisitions	(2.4)	(2.1)	(3.4)	(2.6)	(2.7)
Free Cash Flow	(0.1)	0.6	(2.2)	2.5	3.7

Costs and business scalability analysis

	2019	2020	2021E	2022E	2023E
Operative costs					
Total operative costs	(15.0)	(15.6)	(19.0)	(24.5)	(29.7)
of which variable	71.4%	72.6%	72.5%	75.2%	80.1%
of which fixed	28.6%	27.4%	27.5%	24.8%	19.9%
% on sales	85.8%	85.9%	82.6%	78.8%	75.8%
Most relevant costs					
Raw materials	(7.1)	(7.6)	(9.4)	(12.5)	(15.9)
% on sales	40.3%	42.0%	41.0%	40.0%	40.5%
Labor costs	(3.8)	(4.0)	(4.7)	(5.5)	(5.4)
% on sales	22.0%	22.2%	20.4%	17.8%	13.9%

Solvability ratios

	2019	2020	2021E	2022E	2023E
Net debt (cash) / EBITDA	0.7x	-0.1x	-1.0x	-1.0x	-1.1x
Net debt (cash) / Equity	0.2x	0.0x	-0.2x	-0.3x	-0.4x
Net debt (cash) / Net Invested Capital	0.1x	0.0x	-0.2x	-0.4x	-0.6x

Financial and Operative ratios

	2019	2020	2021E	2022E	2023E
Days of receivables	73	103	100	90	85
Days of payables	75	125	120	125	125
Inventories on sales	64	67	75	66	66
Tax rate	17.0%	-16.1%	30.0%	30.0%	30.0%
ROIC	5.7%	12.1%	8.2%	16.4%	25.2%
ROE	6.7%	11.7%	6.1%	11.4%	15.3%
Capex/Sales	13.5%	11.8%	14.8%	8.4%	6.9%
D&A to capex	81.1%	84.8%	67.8%	108.6%	124.6%
NWC to sales	30.6%	30.6%	35.0%	27.8%	25.5%

Source: Bloomberg, Banca Profilo estimates and elaborations

Company Description

Company Sector	Semiconductor testing
Price (€)	3.90
Number of shares (mln)	13,631.431
Market Cap (€mln)	50.9
Reference Index	FTSE AIM Italia
Main Shareholders	Zaffarami's family
Main Shareholder stake	44%
Free Float	56%
Average Daily Volumes ('000)	47.3
Sample of comparables	Aehr Test Systems, Advantest, Chroma ATE, Cohu, Teradyne.

Data of peers

	2021E	2022E
Revenue Growth (yoy)	24.2%	8.5%
EBITDA margin	27.3%	28.9%

Average data

Multiples of peers

	2021E	2022E
EV / Sales	10.4x	3.4x
EV / EBITDA	14.1x	12.0x

Average data

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