

Resilience to Covid-19: business strategy and targets confirmed



June, 8th 2020 at 19:00

2019: EBITDA margin improving by 120bps

In 2019, Eles registered a slowdown in revenues (-21%), as expected, mainly due to a decrease in the semiconductor and automotive industries. Sales stood at €17.5mln from €22.2mln in 2018, in line with our projections at €17.2mln. EBITDA declined to €3.2mln from €3.8mln in 2018, yet above our forecast at €3mln. In 2019, the EBITDA margin improved 120bps to 18.2% in 2019 (vs our 17.3%) driven by Eles mostly variable costs base. At the end of 2019, net debt was €2.1mln compared to €4.9mln in the 2018, including IPO proceeds.

Strategic guidelines and business plan targets confirmed despite Covid-19 uncertainty

During Covid-19 emergency and lockdown, some big companies active in Eles' end markets have cut their investment plans and guidance. Eles has never stopped research and operations and, therefore, it has confirmed its strategic plans and its industrial plan targets, both in terms of revenue growth and margins improvement. Moreover, the Company can rely on a robust supply chain, even importing from foreign markets, where Eles has a strong presence.

2020E-2022E estimates confirmed

Considering Eles's 2019 results in line with our estimations and management confirmation of Company's guidance we decided to keep our estimates on 2020E-2022E unchanged. We assumed that Covid-19 emergency and lockdown caused a slowdown in some industries such as automotive, but this has been offset by the development of new trends and activities such as smart working and e-commerce, which fed the demand of new technologies. In 2020, we project a 29% revenue growth to €22mln and a 30% CAGR in 2019-2022E. We expect EBITDA to reach €9.8mln in 2022E (€4.3mln in 2020E) with margin at 25.2% (19.5% in 2020E) driven by revenue growth and operating leverage. Cumulated operating cash flows are estimated at €15.8mln in 2020E-2022E and they will be partially invested in Capex and NWC needs, ending with total FCFs of €7.6mln.

Valuation: target price at €6.0/share and BUY confirmed

In a fully diluted scenario, we keep our TP at €6.0/share, as the average of the DCF and market multiple valuations, implying a potential upside of 83% on Eles' closing price (as of 5th June 2020). We therefore confirm our BUY recommendation.

Target Price (€)	6.0	from	6.0
Recommendation	BUY	from	BUY

Price as of June 5 th	3.27
Number of shares (mln)	11.157
Market capitalization (€mln)	34.6
Market segment	FTSE AIM ITALIA

Performance	from IPO
Absolute	+731%
Max / Min	6.5/1.9
Average daily volumes ('000)	77.2

(€mln)	201	2020E	2021E	2022E
Revenue	17.5	22.1	30.1	38.8
yoy change	(21.0%)	28.2%	36.3%	28.8%
EBITDA	3.2	4.3	6.7	9.8
margin	18.2%	19.5%	22.1%	25.2%
EBIT	1.2	2.0	3.7	6.3
margin	6.8%	9.0%	12.3%	16.2%
Net income	0.8	1.2	2.3	3.9
margin	4.8%	4.3%	6.9%	9.6%
NIC	14.6	14.4	14.5	11.5
Net debt (cash)	2.1	(4.1)	(6.0)	(12.7)
Equity	12.5	18.5	20.5	24.2
FCF	(0.1)	0.2	2.2	5.2

Source: Banca Profilo estimates and elaborations, Company data.

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Executive summary

Eles in a nutshell: key investment drivers

Eles: a leading Italian player in semiconductor testing industry

Eles Semiconductor Equipment S.p.A. ("Eles") is a National integrated group active as a specialized company in the production and distribution of test solutions for semiconductors.

Since its inception, Eles collaborates with major semiconductor players such as STMicroelectronics by realizing specific tests on its semiconductors.

Founded in 1988

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

An international presence

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

Zaffarami's Family at 59%

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

Testing is fundamental especially for mission critical businesses

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

Recovery scenario of Semiconductor Industry at the end of 2020

As regard as Eles Industry trend in 2019, the Diesel Gate and the consequent crisis in the Automotive sector led in a decrease in the automotive ECU test market and there are not clear signs of recovery in this sector.

However, the emerging technologies will be fundamental for a global recovery of the technological sector. The scenario of recovery in 2020 could restart in the third quarter of the year 2020, considering the end of Covid-19 restrictions.

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

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

Eles remained operational during the Covid-19 pandemic

Eles continued its activity also during the lockdown as operative in the Aerospace & Defense Industry as well as in the supply chain activities considered essential by regulatory measures.

Main Financial data (2017-2019) and estimates (2020E-2022E)

2017-2019: Double digit revenue growth +11%

Since 2017, Eles reported an average revenue growth above 11% (CAGR 2017-2019), from €14.2mln to €17.5mln.

2019: revenue down 20% to €17.5mln EBITDA margin

In 2019, revenue declined 21% yoy to €17.5mln, as expected, following the contraction in Semiconductor Industry, as this industry represents more than 90% of Eles turnover. EBITDA declined to 3.2mln from €3.8mln in 2018; yet, EBITDA margin improved from 17.0% to 18.2%, given the Group mostly variable cost base. At the

improving 120bps to 18.2%

end of 2019, net debt was €2.1mln compared to €4.9mln in the 2018, including IPO proceeds.

High growth perspectives driven by several initiatives

Main corporate strategy consist of the following guidelines:

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

The recruiting process of new key managers

At the beginning of 2020, Eles introduced two key management figures: the Chief Technological Officer to give a boost to the Design for Reliability & Test project and a manager with long experience in the Asian markets, especially China and India.

2020E-2022E estimates confirmed:

Considering Eles's 2019 results, broadly in line with our expectations and following the management confirmation of its strategy and business plan, we have decided to keep our estimates 2020-2022 unchanged. We assumed that some sales decline related to the slowdown of the Automotive will be offset by growing demand by new trends and activities such as e-commerce and smart working.

30% sales CAGR

We project a 29% revenue growth to €22 mln in 2020 and a 30% CAGR 2019-2022E. The Company is expected to increase its EBITDA from €4.3 mln in 2020E to €9.8 mln in 2022E driven by revenues growth and costs optimization. Regarding the marginality we also keep our estimations at 19.5% in 2020E to 25.2% in 2022E, considering an incidence around 20% on sales of labour costs due to faster expansion of the team as confirmed at the end of 2019 and at the beginning of 2020 with the new figures introduced to accelerate the Company growth.

Increase in EBITDA from €4.3 mln in 2020E to €9.8 mln in 2022E

In terms of cash flow generation we project €7.6mln of cumulated Free Cash Flows in 2020E-2022E (vs previous €6.7mln), mainly thanks to a better optimization of NWC and Capex slightly below our prior expectations (€9.0 mln vs €9.2 mln) considering a slight cut in 2020E (€0.2mln) due to Covid-19 uncertainty.

€7.6 mln cumulated FCF

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).

On average, sales are expected to grow about 8.5% in 2020E and 12.5% in 2021E, with EBITDA margin respectively at 20.1% and 23.8%.

DCF assumptions

We run a DCF model, using our projections of FCF for the explicit 2020E-2021E period, which lead to cumulated FCFs of €7.6mln (an annual average of €2.5 mln) plus a Terminal Value of €79.1mln. We used a WACC of 7.1% and a perpetual growth rate of 2%.

DCF Valuation

The DCF method leads us to an Enterprise Value of €85mln and an Equity Value of €89mln or €6.5/share, as of a Net financial position at 2020E.

Relative Valuation

Our relative valuation based on listed comparable companies similar to Eles developed on average 2020E-2021E EV/EBITDA multiple (13.6x) led to an Equity Value of €73.1mln and therefore to €5.34/share.

Target price at €6.0/share and BUY confirmed

In a fully diluted scenario, we keep our TP at €6.0/share, as the average of the DCF and market multiple valuations, implying a potential upside of 83% on Eles's closing price (as of 5th June 2020). We therefore confirm our BUY recommendation.

Major announcement and key risks

Major announcements in 2020

Major 2020 announcements were:

- in March 2020, ELES appointed a Chief Technology Officer (CTO), to further develop the potential of R.E.T.E., the reliability for "zero defects" process;
- in April 2020, in line with the Chinese market penetration strategy, the structure was strengthened with the hiring of manager with significant previous experience in the Asian markets, especially China and India;
- in May, Eles expanded its customer base in the Aerospace & Defence sector. Mission-critical sectors (such as Defence, Aerospace and Safety) are characterized by an essential need for reliability. The R.E.T.E. test approach was designed to competitively process devices with mission-critical applications.

Our estimates execution risks

Key risks:

- potential political market risks coming from a longer than expected trade war;
- high growth rates can lead to cost management issues and challenge the Net Working Capital control;
- rising competition;
- potential longer than expected crisis in the Automotive industry;
- worsening impact of Covid-19 on 2020 estimates;

SWOT analysis

STRENGTHS

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

WEAKNESSES

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

OPPORTUNITY

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

THREATS

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

The reference market: the semiconductor testing market

Eles: Microelectronics Testing

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

Semiconductor: the catalyst for the next industrial revolution

The Semiconductor Test Equipment market, in which the Group operates, is strongly related to the developments of the Semiconductor market and is also influenced by the end markets application trends, especially mission and safety critical businesses: automotive, aerospace, defence, medical devices.

Since semiconductors are essentials for tech innovations, the future of semiconductors will be the catalyst for the next industrial revolution.

Semiconductors are instrumental to the development, growth acceleration and innovation in Artificial Intelligence (AI). AI creates an unprecedented opportunity for semiconductor vendors due to: i) its applicability across virtually every industry; ii) the strong forecast for the sheer number of chips needed both in the cloud and at the edge; iii) the growing need for specialized computing requirements to accelerate new algorithms.

As regard as Eles Industry trend in 2019, the Diesel Gate and the consequent crisis in the Automotive sector led in a decrease in the automotive ECU test market and there are not clear signs of recovery in the automotive sector.

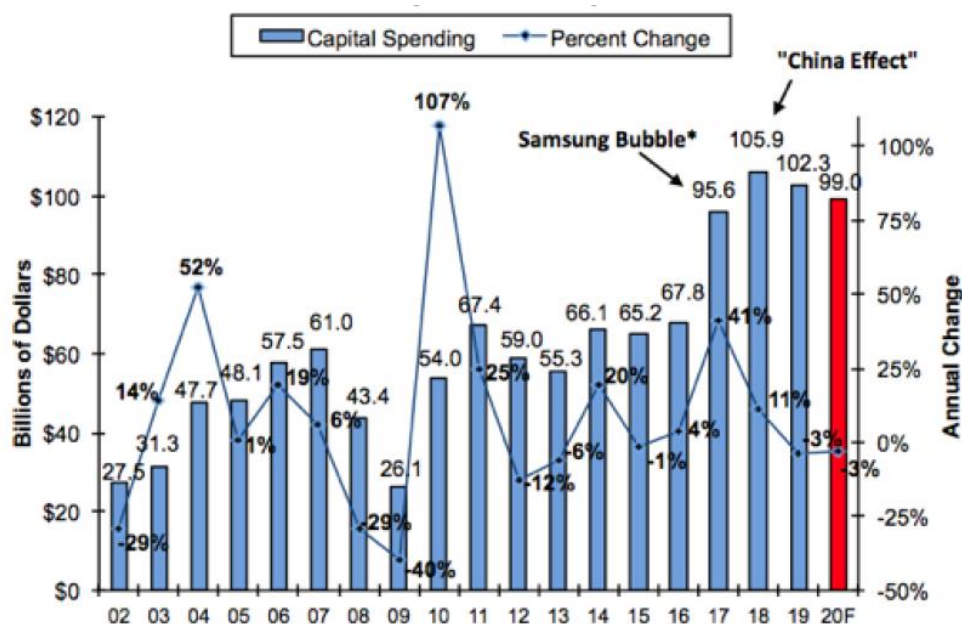
However the emerging technologies such as 5G, the Internet of Things and high-performance computing will be fundamental for a global recovery of the technological sector and related sectors such as that of data centres and hyper-dimensional communication infrastructures will prove more resilient with strategic investments continue necessary to support the evolutions requested.

Gartner Inc. initially forecasted a recovery in 2020 in the semiconductor Industry (+12.5% yoy), following the negative trend in 2019. Covid-19 emergency and lockdown has reduced the projections and worldwide semiconductor revenue is now seen to decrease by 0.9% in 2020. Gartner believes that the non-memory semiconductor markets will experience a significant reduction in smartphone, automobile and consumer electronics production. On the other side, the data centre and communications infrastructure sectors will be more resilient thanks to persistent need to invest to support the growing demand of portable PC for smart working and the increase in e-commerce.

International Data Corporation (IDC) now believes that there is an 80% chance of significant contraction in semiconductor revenues in 2020 instead of its previous expected growth of 2%; however it still gives a 20% chance of a strong bounce back from Covid-19 in 2020, starting from the 3Q, following the removal of the restrictive measures to travel.

Furthermore, IC Insights' forecasts a 4% contraction in global semiconductor market especially due to spending cuts from the big three memory suppliers. Opposite, the rest of semiconductor manufacturers are expected to continue investing in 2020 (+4% yoy). Moreover, IC Insights precised that in the last 20 years, the worldwide semiconductor capex trend has been fluctuating, alternating one positive year with one characterized by a negative trend, however, if the projections of a decline were right, the Industry would experience a two-year decline for the first time in its history.

Figure 1: Worldwide semiconductor capital expenditure trend



Source: IC Insights

Covid-19 impact on Semiconductor Industry

Covid-19 has been impacting differently various segments of the Semiconductor Industry. Their recovery depends on the duration of the lockdown and on how fast customers will start to invest again. Covid-19 has also brought positive effects to the Industry: the increasing use of smart working and e-commerce has been offsetting the decline of demand in other sectors, mainly automotive and industrial. Demand in equipment is now expected to grow by 7% yoy compared to previous estimate of -6% yoy previous. Sales of IC are now seen to increase by 1% yoy compared to the previous 4% contraction. These changes in the Industry habits have given chipmakers the confidence to keep their investment plans unchanged.

Eles overview and business model

The Group overview and activities

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

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

A story of success:

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

International expansion

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

2T ART in 2010

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

ELITE in 2013

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

RETE approach in 2016

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

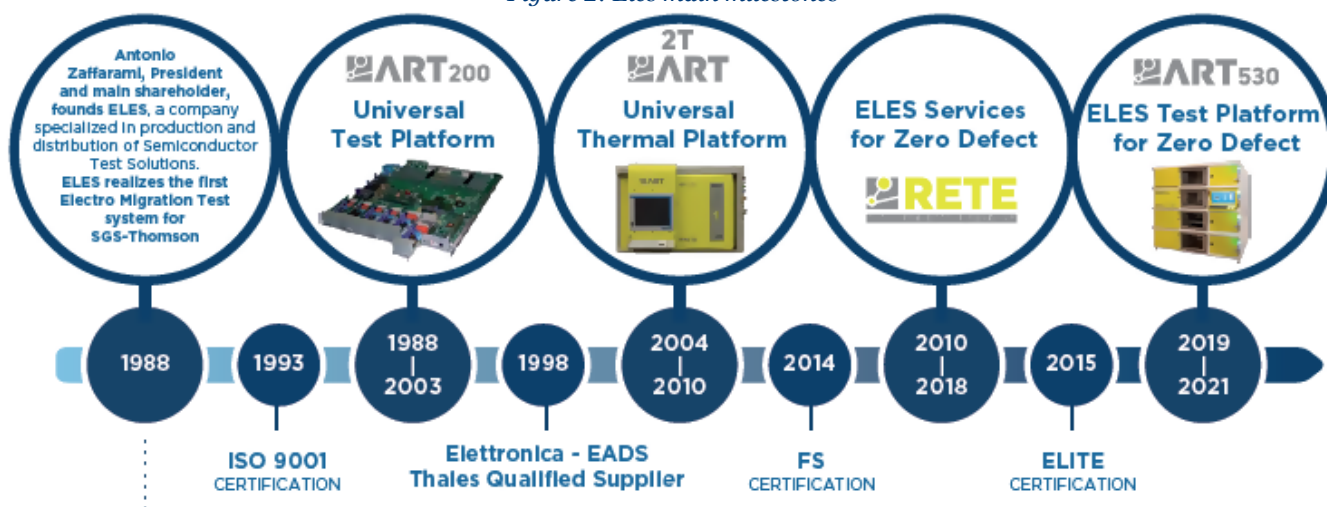
Focus on automotive industry with ECU test

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

AIM listing in 2019

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

Figure 2: Eles main milestones

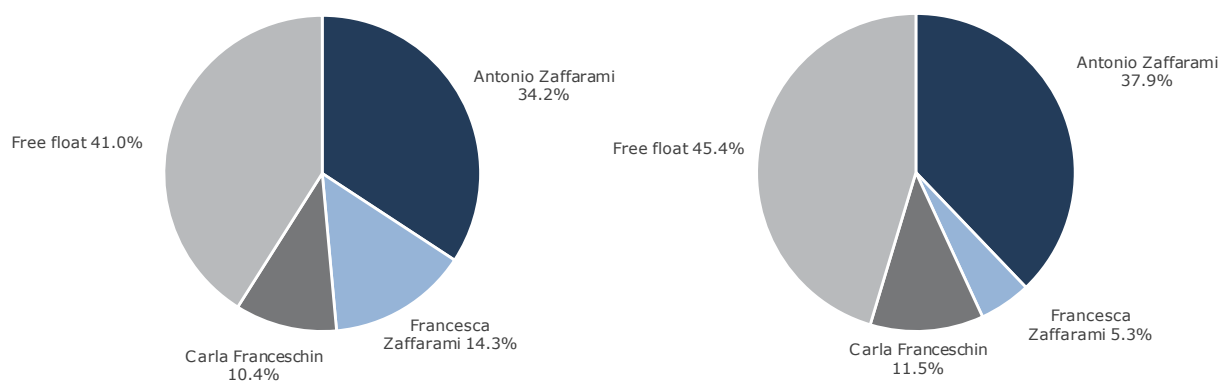


Source: Company's Investor Presentation

Zaffarami family at 59%

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

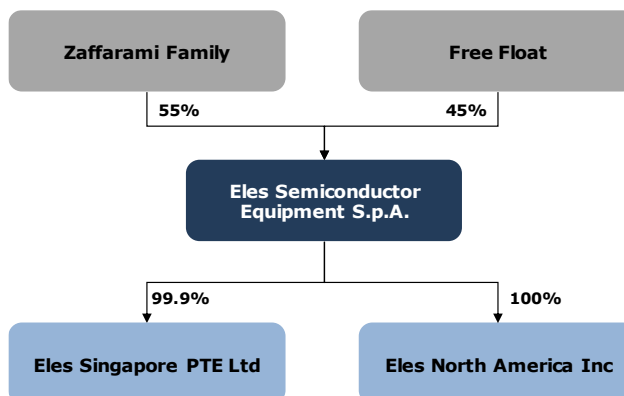
Figure 3: Eles' voting capital (left) vs share capital (right)



Source: Banca Profilo elaborations on Company data

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

Figure 4: Eles Group perimeter



Source: Banca Profilo elaborations on Company data

Warrant distribution

At IPO, the Group issued 1 warrant each 2 ordinary shares. Furthermore, on January, the 13th, the Group distributed further 5.578.500 warrants (1 each 2 ordinary shares). In order to provide the potential dilution coming from the warrant exercise, we assumed the 100% conversion of the warrant held by the market (5.061.192) at a strike price of €2/warrant increased by 2.5% on an yearly basis. This would lead to a decrease in Zaffarami's family controlling stake to 44.5% (from previous 54.6%) and into a dilution effect of 22.7%.

Table 1: Warrant dilution scenario analysis

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

Source: Banca Profilo elaborations on Company data

International presence: Eles operates worldwide through 2 subsidiaries:
USA

- Eles North America, a sales subsidiary based in Fremont (California) through which ELES collaborate with local test labs with the aim of allowing prospect clients to carry out testing trial with ELES' equipment before the final purchase;

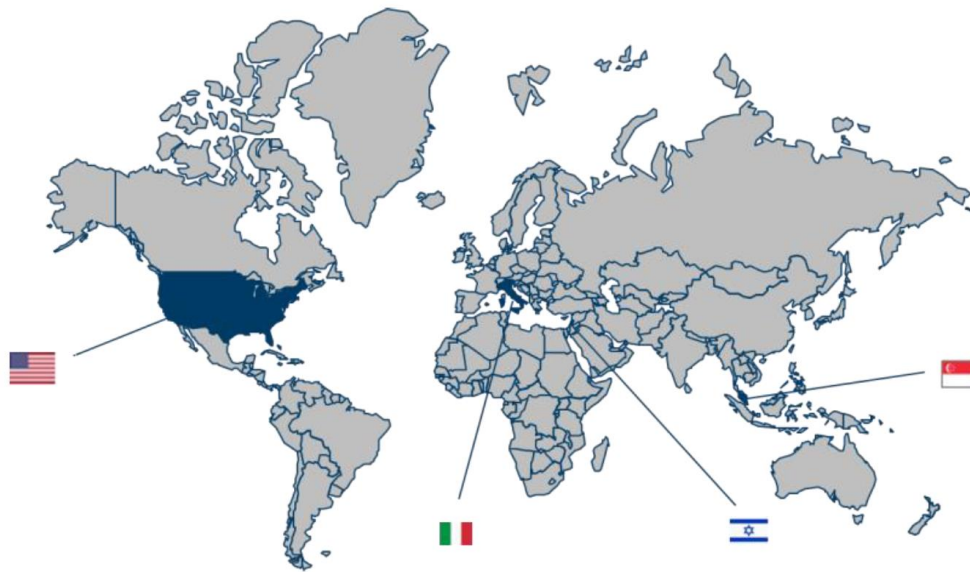
Singapore

- Eles Semiconductor PTE Ltd., a commercial subsidiary based in Singapore which provides technical support.

Israel

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

Figure 5: *Eles geographical presence*



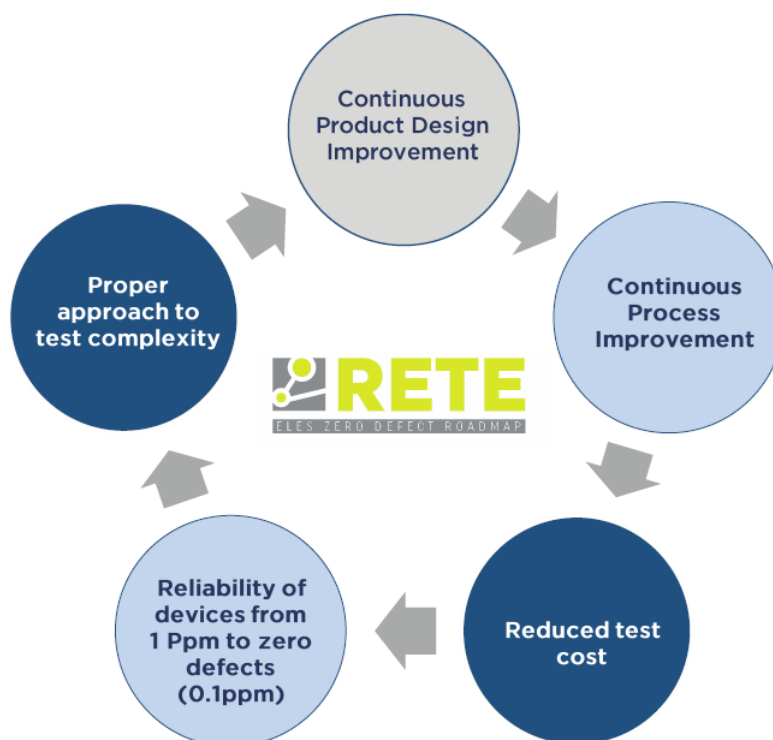
Source: Company's Investor Presentation

RETE: an innovative approach towards zero defect production process

RETE: 80% of final testing during Burn-In phase

In order to detect early and intermittent failures, and move towards a zero-defect semiconductors production process (ppm below 0.1), Eles has developed the so-called RETE (Reliability Embedded Test Engineering) solution. RETE entails a co-engineering process with clients in order to simplify semiconductors' design, increase test coverage and reliability, with important advantages in terms of time and cost savings. Indeed, thanks to the integration of reliability tests into Design, Qualification and Manufacturing processes of ICs (Burn-In-Self-Test) it is possible to carry out up to 80% of the Final Test during the Burn-In test (Test-During-Burn-In, TDBI). Furthermore, Eles' new testing process requires lower number of testing equipment compared to traditional test, while ensuring massive parallel tests. This innovation enabled Eles to enter the ATE market where the company aims at further expanding its share in the upcoming years.

Figure 6: RETE approach



Source: Company's Investor Presentation

Management: long experience in the Group and sound track record

The Group is controlled by the Zaffarami family with a 59% stake: the founder Antonio Zaffarami (Chairman), which owns a 34.2% stake, followed by his daughter Francesca Zaffarami (CEO) with a 14.1% stake and Carla Franceschin with a 10.4% stake. The remaining is Free Float.

The Group can count on a strongly experienced management team:

Antonio Zaffarami: *Founder and Chairman*

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

Francesca Zaffarami: *CEO*

After obtaining a degree in Electronic Engineering from the University of Perugia, in 2003 she joined Eles as application engineer. Between 2004 and 2006 she took part in the company's research and development project called "Wafer Level Burn-In", assisted by the Research Lab of Catania, eventually taking the lead as project manager for Eles' digitization projects. After obtaining an EMBA at the LUISS Guido Carli University in Rome in 2009, she continued her growth in Eles under the roles of Controller and COO Assistant between the years 2008-2014. Since 2016 she has been appointed as CEO and Vice-Chairman of the Board of Directors.

Roberto Scappito:
CFO

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

Mauro Pippozzi:
Chief Technical Officer

Mauro Pippozzi joined Eles at the beginning of 2020. He was appointed Chief Technical Officer to expand the potential of R.E.T.E. (Reliability Embedded Test Engineering), the reliability process for "zero defects". He is an electronic engineer, graduated from the Politecnico in Milan, and he is an expert in "Functional Safety" and Funper for microprocessors. He has over thirty years of international experience in the design and production of chips, including STM, Accent, Pirelli Tyre, Yogitech and Intel.

Andrea Lucaroni:
Key Account Manager

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

Hirings to expand Eles
in Asia

Eles also expanded its management team, hiring an engineer specialized and with sales experience in the Asian markets, mainly China and India.

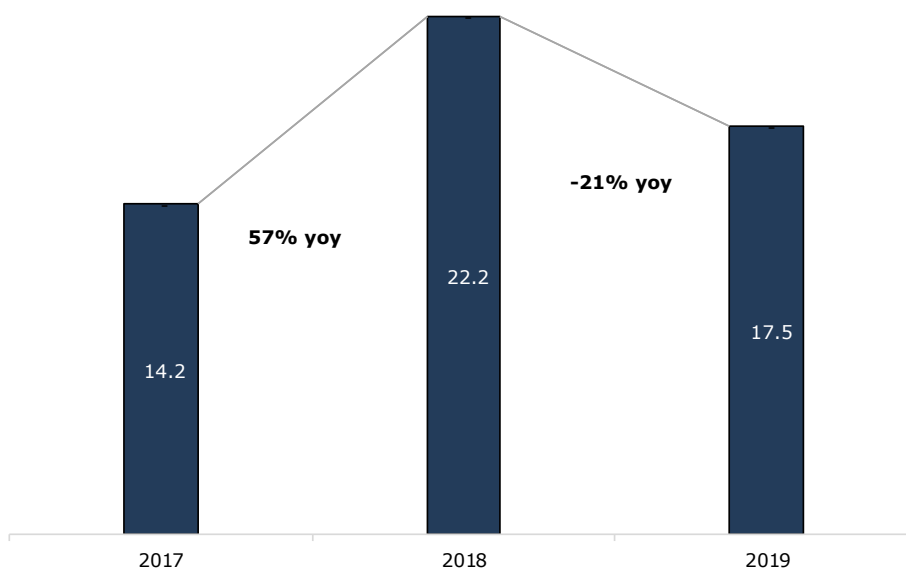
Historical operating and financial performance

Main operating and financial data

2017-2019: > 11%
revenue CAGR

Eles revenues increased by 11.2% on average in 2017-2019. After an impressive growth in 2016-2018 (34% CAGR), the Company has stopped its positive path following the slowdown of the Semiconductor industry in 2019, mainly due to the trade war between USA and China and to the decline in the Automotive Industry.

Figure 7: Eles revenues 2017-2019 (Euro mln)



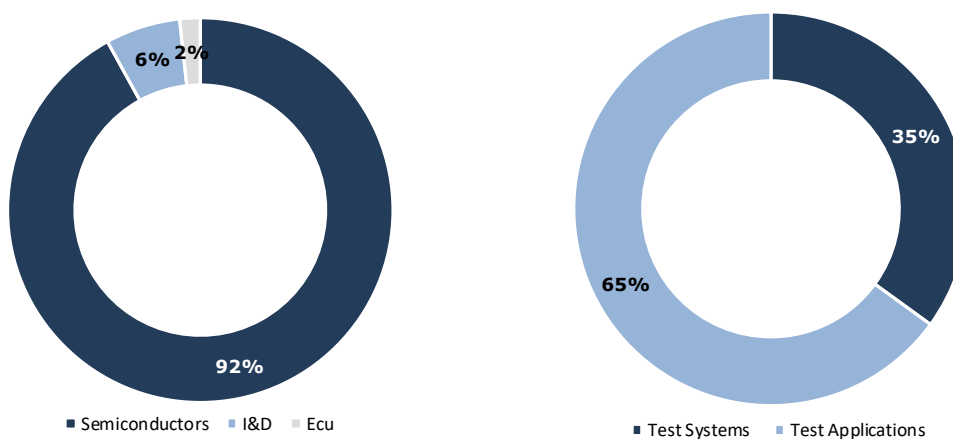
Source: Banca Profilo elaborations on Company data

2019 turnover:
€17.5mln (-21% yoy),
in line with our forecast

In 2019, the Group sales decreased by -21% yoy to €17.5mln, in line with our expectations (€17.2mln). Semiconductors represent the majority of sales (92%), while the rest comes from ECU (Electronic Central Unit) and I&D (Industrial and Defence). In 2019, 65% of revenue came from the production of Test Application whereas the remaining from Test Systems.

Figure 8: Revenue breakdown 2019 by segment (left) and activity (right)

Source: Banca Profilo elaborations on Company data

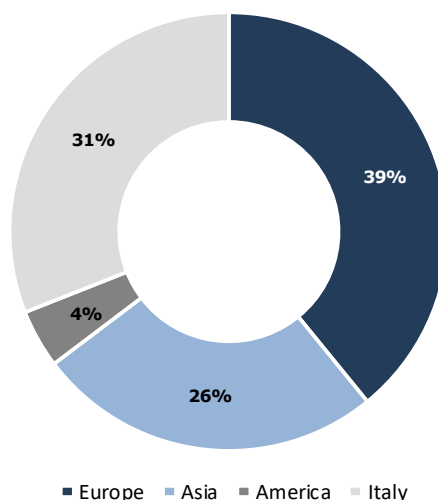


Source: Banca Profilo elaborations on Company data

**A worldwide presence:
Italy > 30%**

In 2019 the incidence of export sales was unchanged at 69%. Sales in Italy accounted for 31% of the total, Europe for 39%, Asia for 26% (+240bps yoy) and America for 4% only.

Figure 9: Geographic revenue breakdown 2019

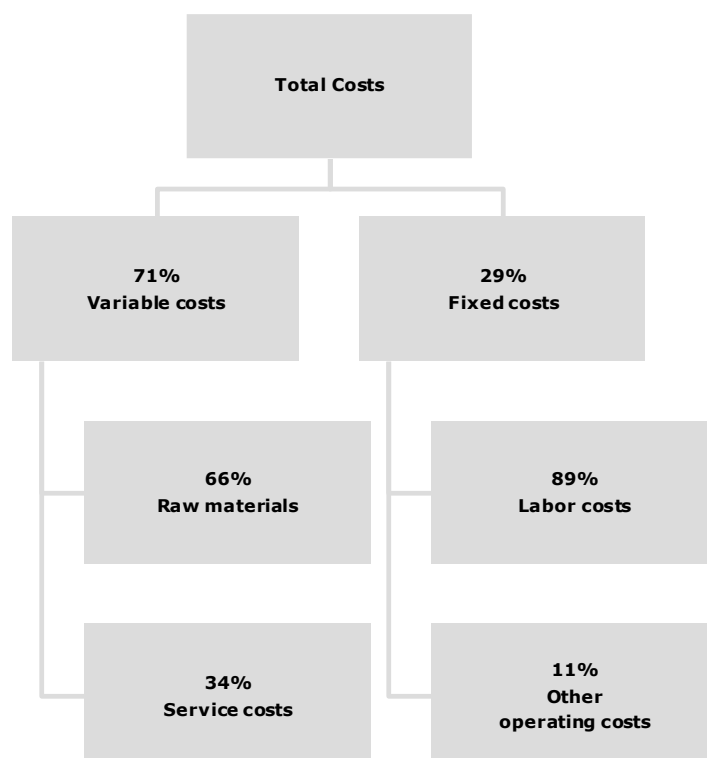


Source: Banca Profilo elaborations on Company data

**Cost structure:
> 70% variables, of
which > 65% are raw
materials**

In 2019 Eles operating expenses declined to €15.0mln from €18.8mln in 2018, following the decline in revenue. Analysing the Group's cost base, in 2019 variable costs accounted for more than 70% of the total. Among variable expenses, raw materials weighted 66% and service costs 34%. Within the fixed costs, labour costs made it quite all with an 89% weight.

Figure 10: Cost structure 2019

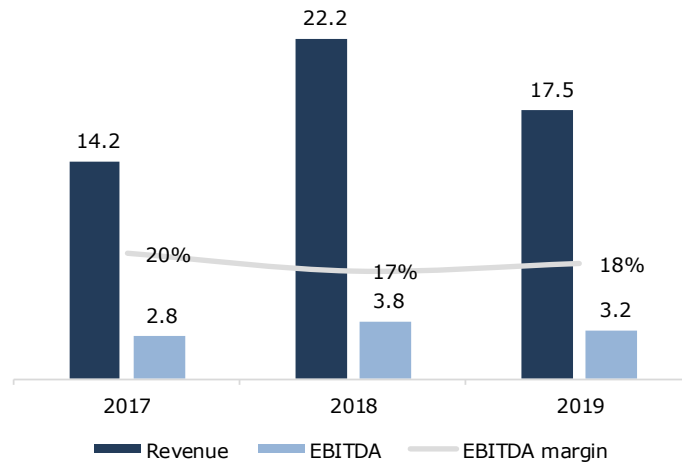


Source: Banca Profilo elaborations on Company data.

*EBITDA margin
+120bps to 18.2%,
better than our
estimate*

In 2019, Eles EBITDA stood at €3.2mIn, slightly higher than our expectation at €3.0mIn; EBITDA margin improved 120bps to 18.2%, well above our estimate at 17.2% thanks to Eles' solid operating leverage. This result is even more positive considering that the Company has strengthened its organizational structure hiring some executives for a total cost of approximately €0.4mIn.

Figure 11: Eles revenue and margins 2017-2019 (€mIn and %)



Source: Banca Profilo elaborations and estimates on Company data

*Net income: €0.8mIn in
2019 vs our projection
at €0.5mIn*

Finally the net income stood at €0.8mIn, including D&A for €1.9mIn and net financial expenses at €0.2mIn, higher than our projection at €0.5mIn.

Table 2: Eles Profit & Loss 2017-2019

Profit & Loss (€/mln)		2017	2018	2019
Revenues		14.2	22.2	17.5
	yoy	13.9%	56.6%	-21.0%
Semiconductor		13.0	18.1	16.1
	% on revenues	91%	82%	92%
ECU		1.2	4.1	1.4
	% on revenues	9%	18%	8%
Others		1.0	1.1	0.7
Value of production		15.2	23.3	18.2
	yoy	24.3%	53.9%	-21.9%
Raw materials		(6.0)	(10.1)	(7.1)
Service costs		(2.6)	(4.5)	(3.7)
Other operating costs		(0.3)	(0.4)	(0.5)
Value added		6.2	8.2	7.0
	margin	43.6%	37.1%	40.1%
Labour costs		(3.4)	(4.4)	(3.8)
EBITDA		2.8	3.8	3.2
	margin	19.7%	17.0%	18.2%
D&A		(2.2)	(2.2)	(1.9)
Provision for risks		(0.0)	(0.1)	(0.1)
EBIT		0.6	1.5	1.2
	margin	4.3%	6.6%	6.8%
Net financial expenses		(0.3)	(0.2)	(0.2)
Extraordinary items		-	-	-
EBT		0.4	1.2	1.0
Taxes		(0.2)	(0.5)	(0.2)
	tax rate	47.4%	38.7%	17.0%
Net profit		0.2	0.8	0.8

Source: Banca Profilo elaborations and estimates on Company data

Balance Sheet:
NWC to be optimized,
31% on sales in 2019

On the Balance Sheet side, at the end of 2019, the Group had an operating Net Working Capital of €5.4mln (from €5.2mln at the end of 2018). The operating NWC to sales ratio stood at 31% at the end of 2019 from 24% in 2018 and it still needs to be optimized.

Net debt decreased
from €4.9mln in 2018
to €2.1mln in 2019

At the end of December 2019, net debt decreased to €2.1mln from €4.9mln a year earlier.

Table 3: Eles Balance Sheet 2017-2019

Balance Sheet (€/mln)	2017	2018	2019
Stock	3.1	3.8	3.8
Accounts receivables	5.6	5.9	4.3
Accounts payables	(3.8)	(4.4)	(2.7)
Operating Net Working Capital	4.8	5.2	5.4
Other current assets & liabilities	(0.9)	(0.9)	-
Net Working Capital	3.9	4.4	5.4
Intangibles	5.2	3.6	3.9
Materials	3.7	3.7	3.9
Financials	0.7	1.0	1.0
Fixed assets	9.6	8.3	8.8
Funds	(1.3)	(1.3)	(0.9)
Other non current assets & liabilities	0.1	0.0	1.2
Net Invested Capital	12.3	11.4	14.6
Equity	5.8	6.5	12.5
Share capital	3.4	3.4	4.0
Reserves	2.2	2.4	7.5
Net profit	0.2	0.8	1.0
Minorities	-	-	-
Net debt (cash)	6.6	4.9	2.1

Source: Banca Profilo elaborations on Company data

Operating cash flow in 2019: €2.9mln almost fully absorbed by Capex

In 2019, Eles generated €2.9mln of operating cash flow (vs our €2.6mln), which was mainly invested in Capex (€2.4mln) leading to a Free Cash Flow of -€0.1 (vs our -€0.9mln).

Table 4: Eles Free Cash Flow 2017-2019

Cash flow (€/mln)	2017	2018	2019
EBIT	0.6	1.5	1.2
taxes	(0.3)	(0.6)	(0.2)
NOPAT	0.3	0.9	1.0
D&A	2.2	2.2	1.9
Operating cash flow	2.5	3.1	2.9
Operating Net Working Capital change	(1.3)	(0.4)	(0.1)
Other funds	0.0	0.1	(0.5)
Capex	(0.9)	(0.7)	(2.4)
FCF	0.3	2.1	(0.1)

Source: Banca Profilo elaborations and estimates on Company data

Strategy and estimates

Corporate strategies

Following the Industry slowdown and Eles' revenue decline in 2019, Company's sales are seen to recover in 2020. According to management, the business plan is confirmed. However, there is still some uncertainty on the path of the Industry recovery post Covid-19 emergency.

Management projects:

Main corporate strategy consist of the following guidelines:

new products and market development

- New products and markets development: i) RETE test approach towards zero defects (from 1ppm to 0.1ppm); ii) local temperature control to be developed in 2020 in order to reach zero defect target lower than 10ppb; iii) system level test during burn-in to be developed in 2020 in order to reach zero defect target lower than 10ppb; iv) RETE reliability test approach for ECU (Electronic Control Unit) for automotive in order to reach zero defect target lower than 10ppb.

XCET partnership in China

- New geographies entry through strategic partnership. Thanks to XCET Electronic (private company with established relationships with hi-tech laboratories in China) commercial agreement, Eles is going to enter the Chinese market. XCET represents an opportunity for Eles to penetrate Chinese market through the wide portfolio of XCET customers especially in the area of device qualification.

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

- Client consolidation and acquisition, especially in the Automotive, Aerospace & Defence ECU testing markets.
- External growth through M&A acquisitions in US and Asia. M&A negotiations had started with three US companies active in the Semiconductors Burn-In Test market, whose client portfolio is complementary to Eles'.
- The listing at the STAR segment and the dual listing on Nasdaq.

Confirming our 2020E-2022E estimates

Considering Eles's 2019 results, broadly in line with our expectations and following the management confirmation of its strategy and business plan, we have decided to keep our estimates 2020-2022 unchanged. We assumed that some sales decline related to the slowdown of the Automotive will be offset by growing demand by new trends and activities such as e-commerce and smart working.

Sales CAGR 2019-2022E at >30% to €39mln

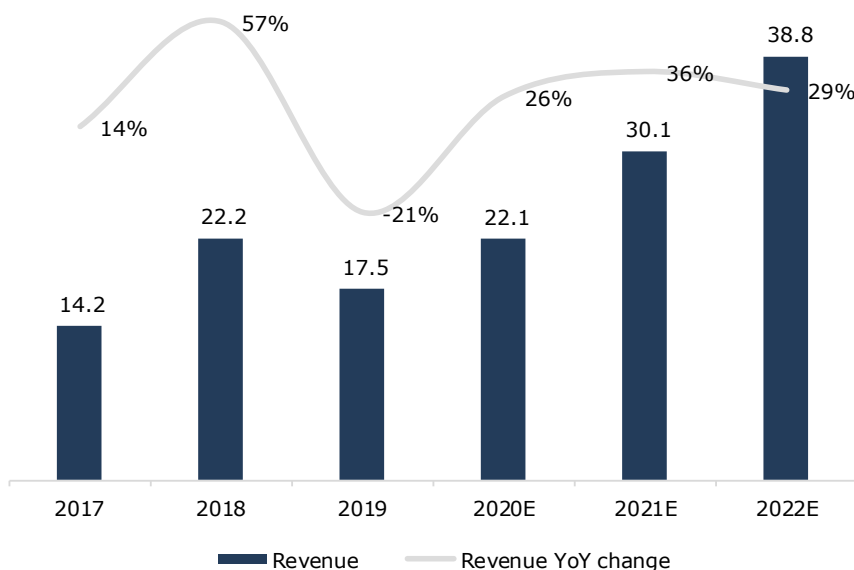
We project a 30.4% CAGR (2019-2022E) to reach €38.8mln in 2022E.

Our sales forecasts confirm Eles' main organic growth drivers: i) its strategic and unique positioning; ii) innovative products which will exploit the TBID market; iii) strategic international partnerships; iv) customers acquisition in the ECU segments; v) increasing demand from new Covid-19 related trends and activities such as e-commerce and smart working.

2020E Sales at €22.1mln +29% yoy

More in details, in 2020 we expect turnover to increase by 29% yoy to €22.1mln, mainly driven by Semiconductor, still representing more than 85% of total sales.

Figure 12: Eles revenue trend (€mln) 2017-2022E



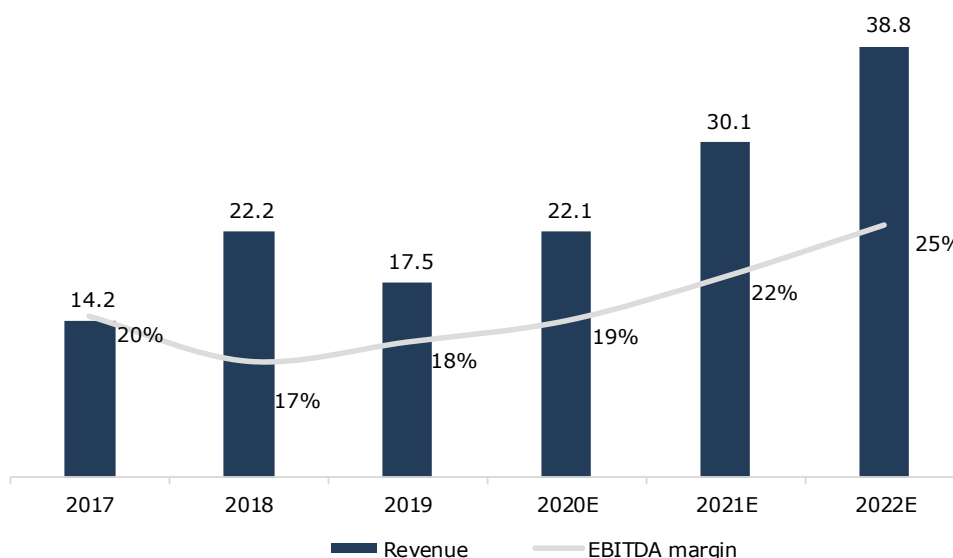
Source: Banca Profilo elaborations and estimates on Company data

EBITDA is expected to reach €9.8mln or above 25% margin in 2022E

In 2020-2022E, we expect Eles to increase significantly its EBITDA, from €4.3mln in 2020E to €9.8mln in 2022E (CAGR 51%). In terms of EBITDA margin we confirm our target of 19.5% in 2020E (+130bp on 2019) to reach 25.2% in 2022E.

More in details, during 2020E-2022E we kept: i) the same cost structure based on more than 70% of variable costs; ii) an incidence just below 20% on sales of labour costs, assuming further strengthening of the organizational structure.

Figure 13: Revenue (€mln) and EBITDA margin (%) trend 2017-2022E



Source: Banca Profilo elaborations and estimates on Company data

Net income: €3.9mln in 2022E from €0.8mln in 2019

Our projected EBITDA will be partially absorbed by D&A. In 2020E, we now expect lower Capital Expenditure due to Covid-19 emergency (€9.0 mln vs our previous forecast at €9.2mln), yet postponing the rest to 2021E. Thus, due to lower Capex projected, we estimate EBIT margin in 2020E at 9.0% to reach 16.2% in 2022E (vs prior 7.9% and 15.8% respectively). We end up with an improving Net income to

€3.9mIn in 2022E from €0.8mIn in 2019.

Table 5: *Eles Profit & Loss 2017-2022E*

Profit & Loss (€/mIn)	2017	2018	2019	2020E Old	2020E New	2021E Old	2021E New	2022E Old	2022E New
Revenues	14.2	22.2	17.5	22.1	22.1	30.1	30.1	38.8	38.8
yoy	13.9%	56.6%	-21.0%	28.2%	28.2%	36.3%	36.3%	28.8%	28.8%
Semiconductor	13.0	18.1	16.1	19.1	19.1	24.1	24.1	30.9	30.9
% on revenues	91%	82%	92%	87%	87%	80%	80%	80%	80%
ECU	1.2	4.1	1.4	3.0	3.0	6.0	6.0	8.0	8.0
% on revenues	9%	18%	8%	13%	13%	20%	20%	20%	20%
Others	1.0	1.1	0.7	0.3	0.3	0.3	0.3	0.3	0.3
Change in inventories	0.8	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% on VoP	5%	3%	0%	0%	0%	0%	0%	0%	0%
Others	0.2	0.4	0.7	0.3	0.3	0.3	0.3	0.3	0.3
% on VoP	2%	2%	4%	1%	1%	1%	1%	1%	1%
Value of production	15.2	23.3	18.2	22.4	22.4	30.5	30.5	39.2	39.2
yoy	24.3%	53.9%	-21.9%	27.7%	27.7%	35.8%	35.8%	28.5%	28.5%
Raw materials	(6.0)	(10.1)	(7.1)	(9.6)	(9.6)	(12.8)	(12.8)	(16.0)	(16.0)
Service costs	(2.6)	(4.5)	(3.7)	(3.9)	(3.9)	(5.3)	(5.3)	(6.8)	(6.8)
Other operating costs	(0.3)	(0.4)	(0.5)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Value added	6.2	8.2	7.0	8.6	8.6	12.0	12.0	16.1	16.1
margin	43.6%	37.1%	40.1%	38.8%	38.8%	39.8%	39.8%	41.3%	41.3%
Labour costs	(3.4)	(4.4)	(3.8)	(4.3)	(4.3)	(5.3)	(5.3)	(6.3)	(6.3)
EBITDA	2.8	3.8	3.2	4.3	4.3	6.7	6.7	9.8	9.8
margin	19.7%	17.0%	18.2%	19.5%	19.5%	22.1%	22.1%	25.2%	25.2%
D&A	(2.2)	(2.2)	(1.9)	(2.5)	(2.2)	(3.1)	(2.9)	(3.5)	(3.4)
Provision for risks	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
EBIT	0.6	1.5	1.2	1.8	2.0	3.5	3.7	6.1	6.3
margin	4.3%	6.6%	6.8%	7.9%	9.0%	11.6%	12.3%	15.8%	16.2%
EBT	0.4	1.2	1.0	1.6	1.8	3.4	3.6	6.1	6.2
Taxes	(0.2)	(0.5)	(0.2)	(0.6)	(0.6)	(1.3)	(1.3)	(2.3)	(2.3)
Net profit	0.2	0.8	0.8	1.0	1.2	2.1	2.3	3.7	3.9

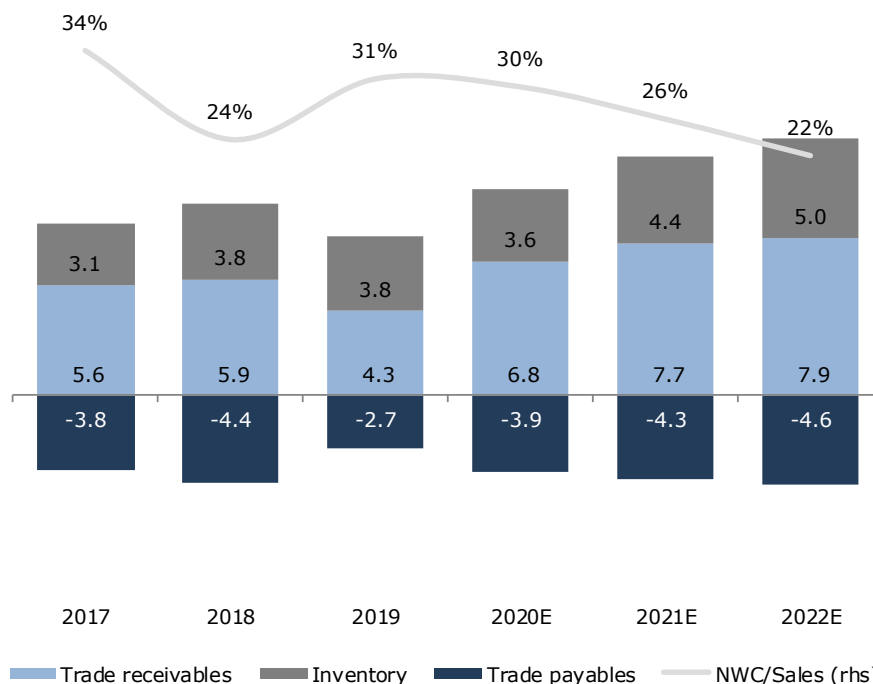
Source: Banca Profilo elaborations and estimates on Company data

**Balance Sheet
projections: €9mIn of
Capex in the period
2020E-2022E and
Operating NWC from
€5.9mIn in 2020E to
€6.6mIn in 2022E**

With regards to our Balance Sheet projections (2020E-2022E), we have included:

- €9mIn Capex (vs previous €9.2mIn in 2020E-2022E), considering a slight cut in 2020E (€0.2mIn) due to Covid-19 uncertainty. However, we still expect high intangible investments (€6.5mIn) in 2020E-2022E mainly addressed to: i) digitalization aimed at process automation and growth support (ERP, Cyber Security and PLM software); ii) equipment for product and markets development; iii) R&D projects which include personnel, materials, project costs and laboratory equipment.
- €6.6mIn Operating Net Working Capital in 2022E from €5.9mIn in 2020E. The increase is mainly due to higher turnover; however, we have not assumed any delay in payments related to Covid-19. DSO are forecasted to decrease thanks to increasing Chinese customers that pay immediately, whereas DPO are expected to decrease due to the expected increase in imports.

Figure 14: Net working capital composition and dynamics



Source: Banca Profilo elaborations and estimates on Company data

Operating NWC better optimisation starting: from 31% in 2019 to 17% in 2022E

Moreover, we estimates a better optimization in operating NWC in 2020E-2022E with the decrease of weight on sales at 17% in 2022E from 31% in 2019.

Table 6: Eles Balance Sheet 2017-2022E

Balance Sheet (€/mln)	2017	2018	2019	2020E Old	2020E New	2021E Old	2021E New	2022E Old	2022E New
Stock	3.1	3.8	3.8	3.6	3.6	4.4	4.4	5.0	5.0
Accounts receivables	5.6	5.9	4.3	6.8	6.0	7.7	6.9	7.9	7.7
Accounts payables	(3.8)	(4.4)	(2.7)	(3.9)	(3.8)	(4.3)	(5.0)	(4.6)	(6.1)
Operating Net Working Capital	4.8	5.2	5.4	6.6	5.9	7.8	6.3	8.4	6.6
Other current assets & liabilities	(0.9)	(0.9)	-	(0.9)	-	(0.9)	-	(0.9)	-
Net Working Capital	3.9	4.4	5.4	5.7	5.9	6.9	6.3	7.5	6.6
Intangibles	5.2	3.6	3.9	5.2	4.9	5.3	5.5	4.2	3.8
Materials	3.7	3.7	3.9	4.0	4.1	3.8	3.8	3.0	2.9
Financials	0.7	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Fixed assets	9.6	8.3	8.8	10.2	10.0	10.0	10.3	8.2	7.8
Funds	(1.3)	(1.3)	(0.9)	(1.5)	(1.5)	(2.1)	(2.1)	(2.9)	(2.9)
Other non current assets & liabilities	0.1	0.0	1.2	-	-	-	-	-	-
Net Invested Capital	12.3	11.4	14.6	14.4	14.4	14.9	14.5	12.8	11.5
Equity	5.8	6.5	12.5	23.3	18.5	25.4	20.5	29.1	24.2
Share capital	3.4	3.4	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Reserves	2.2	2.4	7.7	18.3	13.3	19.3	14.2	21.4	16.3
Accumulated profit/loss	-	-	-	-	-	-	-	-	-
Net profit	0.2	0.8	0.8	1.0	1.2	2.1	2.3	3.7	3.9
Minorities	-	-	-	-	-	-	-	-	-
Net debt (cash)	6.6	4.9	2.1	(8.8)	(4.1)	(10.5)	(6.0)	(16.3)	(12.7)
Liabilities	12.3	11.4	14.6	14.4	14.4	14.9	14.5	12.8	11.5

Source: Banca Profilo elaborations and estimates on Company data

Net cash at €4.1mln in 2020E in a fully diluted

In a fully diluted scenario (warrant exercise), we end with 4.1mln of net cash at the

scenario

end of 2020E and with €12.7mIn of net cash at the end of 2022E, available for extraordinary options, including M&A.

€7.6mIn of cumulated FCFs partially dried out by Capex and Working Capital needs

In terms of cash flow generation, we project €7.6mIn of cumulated Free Cash Flows in 2020E-2022E, slightly above than our previous estimate (€6.7mIn) thanks to a better optimization of Operating Net Working Capital changes and considering a slight cut in Capex 2020E (€0.2mIn) due to Covid-19 uncertainty.

Table 7: *Eles Free Cash Flow evolution 2017-2022E*

Cash flow (€/mIn)	2017	2018	2019	2020E Old	2020E New	2021E Old	2021E New	2022E Old	2022E New
EBIT	0.6	1.5	1.2	1.8	2.0	3.5	3.7	6.1	6.3
taxes	(0.3)	(0.6)	(0.2)	(0.6)	(0.8)	(1.3)	(1.4)	(2.3)	(2.4)
NOPAT	0.3	0.9	1.0	1.1	1.2	2.2	2.3	3.8	3.9
D&A	2.2	2.2	1.9	2.5	2.2	3.1	2.9	3.5	3.4
Operating cash flow	2.5	3.1	2.9	3.6	3.5	5.3	5.1	7.3	7.2
Operating Net Working Capital change	(1.3)	(0.4)	(0.1)	(0.3)	(0.5)	(1.2)	(0.4)	(0.6)	(0.4)
Other funds	0.0	0.1	(0.5)	0.4	0.6	0.6	0.6	0.8	0.8
Capex	(0.9)	(0.7)	(2.4)	(3.9)	(3.4)	(2.9)	(3.2)	(2.4)	(2.4)
	-	-	-	-	-	-	-	-	5.2
FCF	0.3	2.1	(0.1)	(0.2)	0.2	1.8	2.2	5.1	5.2

Source: Banca Profilo elaborations and estimates on Company data

Estimates execution risks

Key risks:

- potential political market risks coming from a longer than expected trade war;
- high growth rates can lead to cost management issues and challenge the Net Working Capital control;
- rising competition;
- potential longer than expected crisis in the Automotive industry;
- worsening impact of Covid-19 on 2020 estimates.

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: €2.5mln yearly FCF on average

To run a DCF model, we use our projections of unlevered FCFs for the 2020E-2022E explicit period: €7.6mln cumulated and €2.5mln on average (vs our previous estimates of €6.7mln and €2.2mln respectively). Compared to our previous estimates, FCFs are slightly above thanks to a better optimization of Operating Net Working Capital changes and considering a slight cut in Capex 2020E (€0.2mln) due to Covid-19 uncertainty.

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

- an average yearly unlevered FCF of €5.2mln, (vs our previous €4.9mln);
- 2% perpetual growth rate (unchanged).

Table 8: Unlevered FCFs

Cash flow (€/mln)	2019	2020E	2021E	2022E	TV
EBIT	1.2	2.0	3.7	6.3	
taxes	(0.2)	(0.8)	(1.4)	(2.4)	
NOPAT	1.0	1.2	2.3	3.9	
D&A	1.9	2.2	2.9	3.4	
Operating cash flow	2.9	3.5	5.1	7.2	
Operating Net Working Capital change	(0.1)	(0.5)	(0.4)	(0.4)	
Other funds	(0.5)	0.6	0.6	0.8	
Capex	(2.4)	(3.4)	(3.2)	(2.4)	
				5.2	
FCF	(0.1)	0.2	2.2	5.2	5.2

Source: Banca Profilo estimates and elaborations

DCF assumptions: WACC at 7.1%

We apply a WACC of 7.1% (unchanged) derived from:

- a risk free rate of 3.0%, including the average 30 days of 30Y Italian BTP yield and assuming a 0.5% increase in the medium term;
- market risk premium of 5%;
- beta of 1.0, coming from the average of a selected sample of listed companies in the Facility Management industry;
- debt to equity target structure with a 80% weight of Equity.

Table 9: WACC calculation

WACC Calculation	
perpetual growth rate	2.0%
WACC	7.1%
risk free rate (30Y)	3.0%
equity risk premium	5%
beta	1.0
KE	8.0%
cost of debt	2.1%
tax rate	39%
KD	1.3%

Source: Banca Profilo estimates and elaborations

DCF valuation:
€6.5/share

The DCF method leads us to an Enterprise Value of €84.9mln (vs our previous €79.9mln) and to an Equity Value of €89.0mln (from previous €89.1mln) or €6.5/share (unchanged), including the fully diluted scenario with €4.1mln of net cash at the end of 2020E.

Table 10: DCF valuation

DCF Valuation	2019	2020E	2021E	2022E	TV
Free Cash Flows (€/mln)	(0.1)	0.2	2.2	5.2	5.2
years	1.0	2.0	3.0	4.0	
discount factor	0.9	0.9	0.8	0.8	
NPV Cash flows (€/mln)	(0.1)	0.2	1.8	4.0	
Sum of NPVs (€/mln)	(0.1)	0.1	1.9	5.9	
Terminal Value (€/mln)					103.8
NPV Terminal Value (€/mln)					79.1
Enterprise Value (€/mln)					84.9
Net debt/ (cash) end of 2020E (€/mln)					(4.1)
Equity Value (€/mln)					89.0
number of shares (mln)					13.7
Per share value (€)					6.5

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.

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

5 comparable
companies

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

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

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

Advantest (JP): ATE test manufacturing

company registered revenues for \$21.1mIn.

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 FY19, the Group reached revenues of JPY 257.9bn (€2.2bn). It operates through 3 different segments:

- Semiconductor and Components Test Systems segment which offers test systems for semiconductor and electronic components industries (71% of FY19 total sales) with a particular focus on DRAM and more recently on SoC;
- Mechatronic segment which provides the semiconductor device handling mechatronic applied products such as testers, handlers, device interfaces and nanotechnology products (13% of FY19 total sales);
- Others segment involves in the customer solution, support and equipment leasing services (16% of FY19 total sales).

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 13,910mIn (€402mIn).

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 \$583mIn.

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:

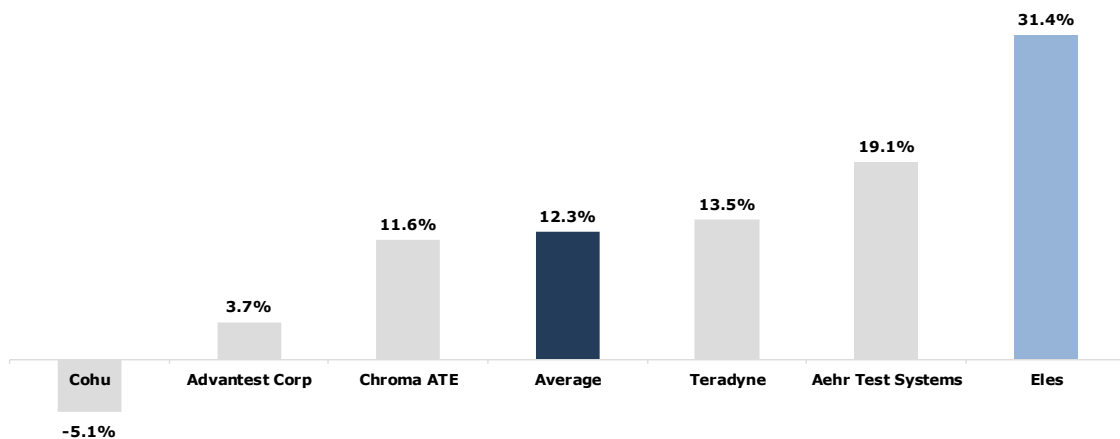
- Semiconductor Test segment (68% of FY19 total revenue) which designs, manufactures, sells, and supports semiconductor test products and services which are used both for wafer level and device package testing;
- Systems Test segment (12% of FY19 total revenue) which comprises of defence and aerospace, storage test, and production board test business unit;
- Wireless Test segment (7% of FY19 total revenue) which designs, develops, and supports advanced wireless test equipment for the manufacturing of wireless devices such as smartphones, tablets, notebooks, laptops, personal computer peripherals, and other Wi-Fi, Bluetooth, near field communication and cellular enabled devices;
- Industrial Automation segment (13% of FY19 total revenue) which supplies collaborative robots that work side by side with production workers

Table 11: Market multiples

Company	Country	Currency	Price	Market Cap	Net debt	Minorities	EV
(mln)							
Aehr Test Systems	UNITED STATES	U.S. Dollar	1.64	37.745	-5.4	0.0	32.3
Advantest Corp	JAPAN	Japanese Yen	5,350.00	1,067,682	-122,140.7		945,541.6
Chroma ATE	TAIWAN	Taiwan Dollar	132.00	55,416	2,513.0	296.7	58,226.1
Cohu	UNITED STATES	U.S. Dollar	14.83	618	196.9	0.0	815.4
Teradyne	UNITED STATES	U.S. Dollar	64.56	10,702	-516.5	0.0	10,185.5

Source: Banca Profilo elaborations on elaborations on FactSet (as of 28th May 2020)

Figure 15: 2020E revenue growth (Eles vs peers)

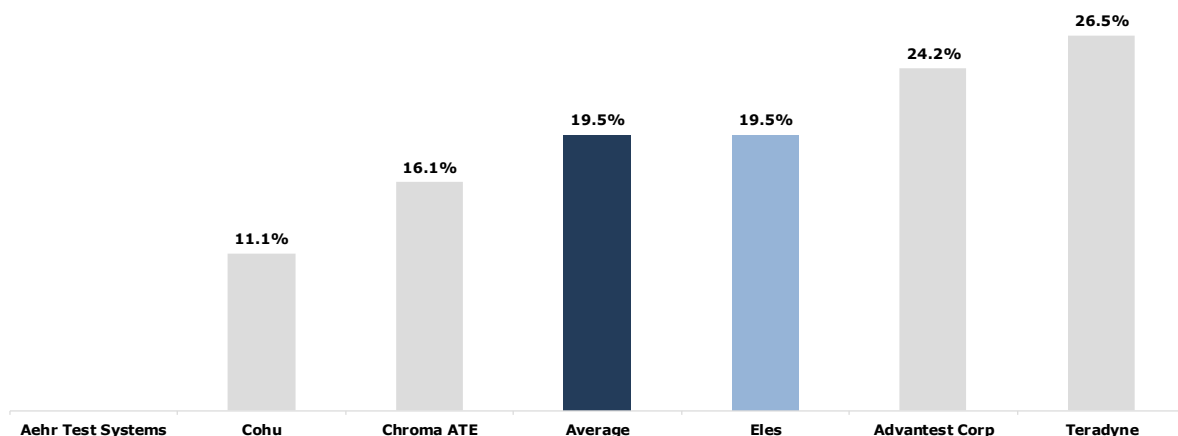


Source: Banca Profilo elaborations on elaborations on FactSet (as of 28th May 2020)

Eles' growing faster than its peers' average in 2020E

In 2020E Eles is expected to grow faster in terms of revenues than its peers' average (+31.4% yoy vs 12.3% respectively).

Figure 16: 2020E EBITDA margin (Eles vs peers)



Source: Banca Profilo elaborations on elaborations on FactSet (as of 28th May 2020)

Eles' EBITDA margin in line with its peers' average in 2020E

Our projections on Eles' EBITDA margin in 2020E (19.5%) are in line with its listed peers' average.

EV/EBITDA 2020E-2021E 13.6x

Our sample shows an average EV/EBITDA 2020E-2021E of 15.9x-11.4x.

Table 12: Sample benchmarking

Company	Sales growth					EBITDA margin				
	2017	2018	2019	2020E	2021E	2017	2018	2019	2020E	2021E
Aehr Test Systems	47.0%	-2.3%	-9.6%	19.1%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Advantest Corp	23.3%	35.6%	4.9%	3.7%	9.6%	13.8%	22.7%	25.1%	21.7%	24.5%
Chroma ATE	28.2%	13.6%	-17.8%	11.6%	12.2%	22.5%	19.8%	18.0%	22.4%	25.3%
Cohu	25.0%	28.1%	29.1%	-5.1%	22.7%	n.a.	n.a.	10.5%	8.3%	15.4%
Teradyne	21.9%	-1.7%	9.2%	13.5%	5.3%	31.3%	30.5%	30.1%	28.1%	29.9%
Mean	29.1%	14.7%	3.2%	8.5%	12.5%	22.5%	24.3%	20.9%	20.1%	23.8%
Eles	24.3%	53.9%	-21.9%	23.2%	35.8%	18.4%	16.2%	17.5%	19.2%	21.8%

Source: Banca Profilo estimates and elaborations on FactSet (as of 28th May 2020)

Table 13: Market multiples

Company	EV / EBITDA	
	2020E	2021E
Aehr Test Systems	n.a.	n.a.
Advantest Corp	15.2x	12.2x
Chroma ATE	16.8x	13.2x
Cohu	17.6x	7.8x
Teradyne	13.9x	12.4x
Mean	15.9x	11.4x
Eles	7.3x	4.7x

Source: Banca Profilo estimates and elaborations on FactSet (as of 28th May 2020)

Relative Valuation on multiples

Market multiples valuation: €5.34/share

Due to the uncertainty related to Covid-19 emergency and to the post-Covid-19 lockdown on the future in this period of lockdown we decided to use the peers' average EV/EBITDA 2020E-2021E weighting 90% the 2020E and 10% the 2021E. This weighted approach leads us to a mean EV/EBITDA multiple of 13.6x. We end with an Equity Value of €73.1mln (vs our previous €75.2mln) or €5.34/share (vs our previous €5.50/share).

Table 14: Market multiples valuation

Relative Valuation on market multiples			
EV/EBITDA		EBITDA	
2020E	2021E	2020E	2021E
15.9x	11.4x	4.3	6.7
ENTERPRISE VALUE		NET DEBT 2020E	
68.3	76.0	-4.1	
EQUITY VALUE			
73.1			
Price per share		5.34	

Source: Banca Profilo estimates and elaborations on FactSet (as of 28th May 2020)

12-month TP at €6.0/share and BUY recommendation confirmed

We confirm Eles 12-month Target Price at €6.0/share as the average of the DCF and market multiple valuations, implying a potential upside higher than 80% on Eles's closing price (as of 5th June 2020). We thus also confirm our BUY recommendation.

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Eles "ID Card"

Recommendation

BUY

Target Price

6.0 €

Upside

83%

Company Overview

Eles Semiconductor Equipment S.p.A. ("Eles") was founded in 1988 by Antonio Zaffarami (ELES' current Chairman and main shareholder) as a specialized company in the production and distribution of test solutions for semiconductors. Since its inception, Eles collaborates with major semiconductor players such as STMicroelectronics by realizing specific tests on its semiconductors. The Group is controlled by its founder Antonio Zaffarami (Chairman), which owns a 34.2% stake of the Company, followed by his daughter Francesca Zaffarami (CEO) with a 14.1% stake and Carla Franceschin with a 10.4% stake. The remaining voting rights are held by the market (41%). As regard as Eles Industry trend in 2019, the Diesel Gate and the consequent crisis in the Automotive sector led in a decrease in the automotive ECU test market and there are not clear signs of recovery in this sector. However, the emerging technologies will be fundamental for a global recovery of the technological sector. The scenario of recovery in 2020 could restart in the third quarter of the year 2020, considering the end of Covid-19 restrictions. In 2019, Eles registered a slowdown in revenues (-21%), as expected, mainly due to a decrease in the semiconductor and automotive industries. Sales stood at €17.5m in 2019, in line with our projections at €17.2m. EBITDA declined to €3.2m from €3.8m in 2018, yet above our forecast at €3m. In 2019, the EBITDA margin improved 120bps to 18.2% in 2019 (vs our 17.3%) driven by Eles mostly variable costs base. At the end of 2019, net debt was €2.1m compared to €4.9m in the 2018, including IPO proceeds. In our estimates, we project a 30% Sales CAGR (2019-2022E) for the Group to reach €39m. In 2022E we estimate EBITDA of €9.8m (25% margin), €3.9m Net income and a Net cash of about €12.7m (including expected cash from warrant conversion to occur in 2020E and warrant fully diluted scenario).

SWOT Analysis

Strengths

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

Weaknesses

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

Opportunities

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

Threats

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

Main catalysts

- M&A deals to enter new geographies and new market niches
- Quicker or higher margins improvement driven by NWC optimization
- Stronger than expected revenue boost coming from autonomous driving macrotrend
- 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 2020 estimates

Eles "ID Card"

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Recommendation

BUY

Target Price

6.0 €

Upside

83%


Main Financials

(€ mln)	2018	2019	2020E	2021E	2022E
Revenues	22.2	17.5	22.1	30.1	38.8
yoy change		-21.0%	26.2%	36.3%	28.8%
Value of production	23.3	18.2	22.4	30.5	39.2
yoy change		-21.9%	23.2%	35.8%	28.5%
EBITDA	3.8	3.2	4.3	6.7	9.8
yoy change		-15.7%	35.0%	54.8%	46.8%
margin (%)	17.0%	18.2%	19.5%	22.1%	25.2%
EBIT	1.5	1.2	2.0	3.7	6.3
margin (%)	6.6%	6.8%	9.0%	12.3%	16.2%
EBT	1.2	1.0	1.8	3.6	6.2
margin (%)	5.6%	5.8%	8.2%	11.9%	16.1%
Net income	0.8	0.8	1.2	2.3	3.9
margin (%)	3.4%	4.8%	5.5%	7.5%	10.0%
Net Debt (cash)	4.9	2.1	(4.1)	(6.0)	(12.7)
Shareholders Equity	6.5	12.5	18.5	20.5	24.2
Operating Net Working Capital	5.2	5.4	5.9	6.3	6.6
Fixed assets	8.3	8.8	10.0	10.3	7.8
Net invested capital	11.4	14.6	14.4	14.5	11.5
Operating Free Cash Flow	3.1	2.9	3.5	5.1	7.2
Capex and acquisitions	(0.7)	(2.4)	(3.4)	(3.2)	(2.4)
Free Cash Flow	2.1	(0.1)	0.2	2.2	5.2

Costs and business scalability analysis

	2018	2019	2020E	2021E	2022E
Operative costs					
Total operative costs	(19.5)	(15.0)	(18.5)	(24.3)	(30.0)
of which variable	75.0%	71.4%	72.2%	73.7%	75.0%
of which fixed	25.0%	28.6%	27.8%	26.3%	25.0%
% on sales	88.1%	85.8%	83.9%	80.7%	77.2%
Most relevant costs					
Raw materials	(10.1)	(7.1)	(8.8)	(11.7)	(14.5)
% on sales	45.6%	40.3%	39.8%	38.8%	37.3%
Labor costs	(4.4)	(3.8)	(4.7)	(5.9)	(7.0)
% on sales	20.0%	22.0%	21.3%	19.7%	18.1%

Solvability ratios

	2018	2019	2020E	2021E	2022E
Net debt (cash) / EBITDA	1.3x	0.7x	-0.9x	-0.9x	-1.3x
Net debt (cash) / Equity	0.7x	0.2x	-0.2x	-0.3x	-0.5x
Net debt (cash) / Net Invested Capital	42.6%	14.3%	-28.4%	-41.6%	-109.8%

Financial and Operative ratios

	2018	2019	2020E	2021E	2022E
Days of receivables	79	73	80	67	58
Days of payables	90	75	85	83	81
Inventories on sales	17.1%	21.5%	16.5%	14.5%	13.0%
Tax rate	38.7%	17.0%	17.0%	17.0%	17.0%
ROIC	6.6%	5.7%	8.4%	15.7%	33.8%
ROE	11.5%	6.7%	6.5%	11.1%	16.1%
Capex/Sales	3.2%	13.5%	15.3%	10.6%	6.2%
D&A to capex	308.5%	81.1%	66.0%	90.2%	140.1%
NWC to sales	23.5%	30.6%	26.5%	20.8%	17.1%

Company Description

Company Sector	Semiconductor testing
Price (€)	3.27
Number of shares (mln)	11.157
Market Cap (€mln)	36.5
Reference Index	FTSE AIM Italia
Main Shareholders	Zaffarami's family
Main Shareholder stake	59%
Free Float	41%
Average Daily Volumes ('000)	85.7
Sample of comparables	Aehr Test Systems, Advantest, Chroma ATE, Cohu, Teradyne.

Data of peers

	2019	2020E	2021E
Revenue Growth (yoy)	3.2%	8.5%	12.5%
EBITDA margin	20.9%	20.1%	23.8%

Average data

Multiples of peers

	2020E	2021E
EV / Sales	2.7x	2.8x
EV / EBITDA	15.9x	11.4x

Average data

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