

Despite guidance cut, mid-long term industry drivers stay solid

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1H20: weakening growth but robust marginality

In 1H20, Eles revenue decreased by 15.3% yoy to €8.3mln, impacting mainly Test systems following the postponement of investments by costumers and their production slowdown during Covi-19 related lockdown. Despite sales decline, EBITDA margin at 16.9% is broadly in line with 1H19 (17.1%), supported by the Group's variable cost structure and by strategic cost savings, despite the strengthening of its organizational structure.

Mid-long-term industry drivers stay solid

In 2020, the Semiconductor Industry is expected to slow down mainly due to i) lower than expected automotive demand; ii) US-China commercial trade war; iii) Covid-19 related lockdown and travel restrictions. However, since semiconductors are essential for global tech step up, their mid and long-term growth drivers remain solid and global technological trends keep following their robust evolution path. Global Semiconductors players have published recovering trends in their 3Q figures and Eles recently announced new orders from its key market, China.

2020E-2022E estimates reduced following Company guidance cut

Following Eles guidance revision on 2020E, due to the highly uncertain scenario, the slowdown in Automotive IC and weakening demand of European Semiconductors, we updated our estimates on 2020. Nevertheless, we maintain our growth expectations and we expect a recovery in Semiconductor Industry over the mid-long-term run, as main technological trends and evolution remain solid. We now see revenues at €18.1mln (vs our previous estimate at €22.1mln) and we forecast sales CAGR 2019-2023E at 22% to reach €38.8mln (vs previous 30.4%). In 2020E-2023E we expect Eles to increase significantly its EBITDA to €9.8mln, with margin reaching 25.2% (+570bps in three years), up from our previous estimate at 19.5% in 2020E and 25.2% in 2022E, assuming costs optimization. Cumulated operating cash flows are estimated now at €19.9mln in 2020E-2023E (vs previous €15.8mln in 2020E-2022E) and they will be partially invested in Capex and NWC needs, ending with total FCFs of €6.4mln (vs previous €7.6mln in 2020E-2022E).

Valuation: target price decreased to €4.9/share; BUY confirmed

Given Company guidance cut, the highly uncertain scenario, due to Covid-19 persisting outbreak and worsening US-China trade war, we reduced our TP to €4.9/share from previous €6.0/share, as the average of DCF and market multiple valuations. The stock's potential upside remains relevant, thus we confirm our BUY recommendation.

Target Price (€)	4.9	from	6.0
Recommendation	BUY	from	BUY

Price as of November 9 th	2.77
Number of shares (mln)	11.276
Market capitalization (€mln)	29.6
Market segment	FTSE AIM ITALIA

Performance	from IPO
Absolute	+481%
Max / Min	6.5/1.9
Average daily volumes ('000)	57.9

(€mln)	2019	2020E	2021E	2022E
Revenue	17.5	18.1	22.1	30.1
yoy change	(21.0%)	3.1%	22.3%	36.1%
EBITDA	3.2	3.1	4.3	6.7
margin	18.2%	17.0%	19.5%	22.1%
EBIT	1.2	2.0	2.0	3.7
margin	6.8%	9.0%	9.0%	12.3%
Net income	0.8	0.5	0.9	2.2
margin	4.8%	2.8%	4.0%	7.2%
NIC	14.6	15.3	15.6	14.3
Net debt (cash)	2.1	1.6	1.0	(2.4)
Equity	12.5	13.7	14.6	16.7
FCF	(0.1)	(1.3)	0.8	2.1

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 54% from previous 59%

At the end of the first warrants' execution period between 2020 July 1st and July 31st, 238.750 warrants have been exercised thus, 119.375 newly Eles ordinary shares were issued, for a total value of €238.750. Following this capital increased, the new share capital composition is: 45.9% is free float (previously 45.5%); 37.4% is held by Antonio Zaffarami (previously 37.9%); 11.4% is held by Carla Franceschin (previously 11.5%); 5.2% is held by Francesca Zaffarami (previously 5.3%). The dilution effect is 1.1%.

1H20: Semiconductors Equipment +19% yoy

The demand for Semiconductor Equipment remained solid in the 1H20 (+19% yoy) despite Covid-19 outbreak and related lockdown, mainly for growing demand driven by new trends and activities such as e-commerce and smart working.

However, the dynamics within the Semiconductors Industry differentiate by geography and product. The Foundry Equipment (wafer fab) and Memory IC Automated Test System sectors registered an increase, especially in Asia. In detail, Memory IC grew by 97% yoy, while the Burn-in segment declined by 13% yoy.

The Semiconductor Equipment market reported the highest growth in Korea and China respectively at 43% yoy and 41% yoy, whereas in Europe and in the Rest of the Industry it declined by 22% yoy and 31% yoy respectively. This reduction is mainly due to lower semiconductors production capacity derived from lockdown and the slowdown in the Automotive and Industrial Sectors.

2020: expected slowdown semiconductors

In 2020, the Semiconductors Industry is expected to slow down mainly due to i) lower than expected automotive demand; ii) US-China commercial trade war; iii) Covid-19 related lockdown and travel restrictions impacting some markets strictly linked to the Semiconductors Industry.

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 Financial data (2017-2019) and estimates (2020E-2023E)

2017-2019: Double digit revenue growth +11%

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

1H20 revenues: -15% yoy due to Covid-19 impact and Automotive IC decreasing demand

In 1H20, Eles revenues decreased by 15.3% yoy to €8.3mIn, impacting mainly Test systems turnover following the postponement of investments by costumers and their lower production during the lockdown.

Resilience showed by EBITDA margin at 16.9%

Despite sales decline, EBITDA margin at 16.9% results in line with 1H19 (17.1%), supported by the Group's variable cost structure and by strategic cost savings and despite the strengthening of its organizational structure.

High growth perspectives driven by several initiatives

Main corporate strategy consists 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.

2020E estimates revision following guidance cut and main end-markets trends

Following Eles guidance revision on 2020E forecasts, due to the highly uncertain macroeconomic scenario, the slowdown in Automotive IC and weakening demand of European Semiconductors, we updated our 2020E estimates.

2020E: sales +3% yoy; 17.0% EBITDA margin

In 2020 we now project sales at €18.1mIn (previous seen at €22.1mIn), slightly above 2019 results (+3% yoy). We forecast EBITDA at €3.1mIn (vs previous seen at €4.3mIn), slightly below €3.2mIn in 2019, with an EBITDA margin down to 17.0%, from our previous 19.5% (18.2% in 2019), reflecting lower revenues and the strengthening of the organizational structure, only partially offset by a variable cost structure.

Revenues growth confirmed: CAGR 2019-2023E at 22%

Despite the decrease in our 2020E estimates due to Covid-19 impact and US-China trade war, we believe that in the in the long run, main technological drivers remain solid, thus we confirm a revenue growth in 2019-2023E shifting by one year our growth projections.

We now project a 22% CAGR 2019-2023E to reach €38.8mIn in 2023E, vs previous 30.4% CAGR 2019-2022E.

€6.4mIn of cumulated FCFs in 2020E-2023E

In terms of cash flow generation, we project €6.4mIn of cumulated Free Cash Flows in 2020E-2023E, below our previous estimate (€7.6mIn in the period 2020E-2022E) mainly reflecting lower turnover, higher operating working capital needs, but keeping a high level of Capex to support key R&D activity for growth.

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 12.0% in 2020E and 12.5% in 2021E, with EBITDA margin respectively at 23.0% and 25.0%.

DCF assumptions

We run a DCF model, using our projections of FCF for the explicit 2020E-2021E period, which lead to cumulated FCFs of €6.4mln (an annual average of €1.6 mln) plus a Terminal Value of €52.6mln. We used a WACC of 8.6% and a perpetual growth rate of 2%.

DCF Valuation

The DCF method leads us to an Enterprise Value of €57.2mln and an Equity Value of €55.6mln or €4.9/share, as of a Net financial position at €1.6mln in 2020E.

Relative Valuation

Our relative valuation based on listed comparable companies similar to Eles developed on average 2020E-2021E EV/EBITDA multiple (15.5x) led to an Equity Value of €54.7mln and therefore to €4.85/share.

12-month TP reduced at €4.9/share (from €6.0) BUY confirmed

In light of the high uncertain economic scenario due to Covid-19 impact on worldwide economy and the worsening of US-China affair after the BAN issued by US that had directly impacted Semiconductor Industry, we decided to reduce our Eles 12-month Target Price at €4.9/share as the average of the DCF and market multiple valuations. Given the significant potential upside on Eles' current price we 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;
- in July, Eles received a new order for its ART systems from an important Europe-based multinational company active in the manufacturing of integrated devices and leader in the production of MEMS (Micro Electro-Mechanical Systems, semiconductor chips increasingly present in daily used devices);
- in July, 237.750 warrants were exercised and subsequently subscribed at the price of €2.0 per share, corresponding to 119.375 newly issued Eles ordinary shares;
- in October, Eles' ART platform and R.E.T.E. methodology have been chosen by an important global leader in the production of MEMS (Micro Electro-mechanical Systems), from which the Company received its first order.

*Our estimates
execution risks: longer
and deeper Covid-19;
intensifying trade war*

- in October, Eles' ART platform and R.E.T.E. methodology have been chosen by a new Customer: an important multinational world leader in MEMS (Micro Electro-mechanical Systems) devices production, from which the Company received the first order.

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 and over;

SWOT analysis

STRENGTHS	WEAKNESSES
• High innovation capability (RETE Approach) • Sophisticated IP Libraries (Entry barriers) • Zero Defect Reliability as a requirement • 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's Industry: trends update

Market overview

1H20:
Semiconductors
Equipment +19% yoy

Memory IC segment
-13% yoy in Burn-in

The demand for Semiconductor Equipment remained solid in the 1H20 (+19% yoy) despite Covid-19 outbreak and related lockdown, mainly for growing demand driven by new trends and activities such as e-commerce and smart working.

However, the dynamics within the Semiconductors Industry differentiate by geography and product. The Foundry Equipment (wafer fab) and Memory IC Automated Test System sectors registered an increase, especially in Asia. In detail, Memory IC grew by 97% yoy, while the Burn-in segment declined by 13% yoy.

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Figure 1: Worldwide semiconductor Equipment market 1H19 vs 1H20

Worldwide Semiconductor Equipment (\$bn)	1H20	1H19	1H20 vs 1H19
Taiwan	7.53	7.02	7%
Korea	7.84	5.47	43%
Japan	3.40	2.93	16%
China	8.09	5.72	41%
North America	3.57	3.37	6%
Europe	1.10	1.41	-22%
Rest of the World	0.81	1.18	-31%
	32.34	27.1	19%

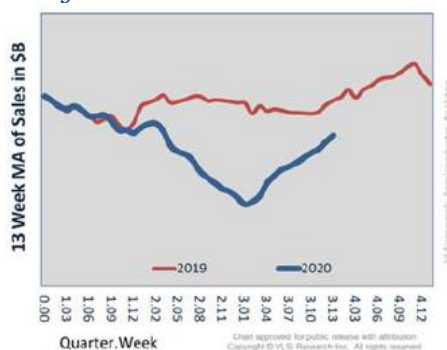
Source: SEMI and SEA1, September 2020

2020: expected
slowdown
semiconductors

In 2020, the Semiconductors Industry is expected to slow down mainly due to:

- lower than expected automotive demand; the Auto IC shows a V sharp recovery in 2020, yet below its 2019 levels;
- US-China commercial trade war: on May the 15th the US Commerce Department tightened its sanctions against the Chinese technology firm Huawei. The new restrictions ban companies operating outside US from using US-made designs or inputs for semiconductors that Huawei uses in its products.
- Covid-19 related lockdown and travel restrictions impacting some markets strictly linked to the Semiconductors Industry, such as the Automotive and Industrial segments.

Figure 2: Automotive IC sales trend



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 driven by:

- Automotive, thanks to the development of autonomous driving, to increasing connectivity in the vehicle, the shared mobility services and the vehicle electrification;
- Artificial Intelligence through its applications across every industry, with an expected AI computing for automotive CAGR 2019-2025 at 73%;
- 5G with an expected 11% CAGR 2020-2025 to \$23.4bn from \$15.2bn 2019;
- Cloud gaming feeding datacentres and projected to grow at a CAGR 2019-2025 exceeding 70% for CPUs and GPUs, to reach \$14bn at the end of 2025;
- IoT, which will be key for global recovery of the technological sector and it is expected to grow at a 15% CAGR 2019-2024. The adoption of connected devices is driven by industries such as manufacturing, transportation, energy, smart cities and MedTech.

What is happening to Semiconductors global player in the 2H20?

3Q20: the quarter after Government restrictions

To better understand the dynamics, post Covid-19 related lockdown, we conducted an analysis on the 3Q20 results of main Semiconductor Industry's player and Eles competitors. Most of them show a quite satisfying rebound in the 2H20 and confirmed their FY20 guidance.

STMicroelectronics: 3Q20 revenues +4.4% yoy; 4Q20 sales expected to increase qoq

STMicroelectronics reported revenues at 3Q20 \$2.67 bn, representing an increase of 4.4% yoy and +27.8% qoq. The Company recorded higher sales in Microcontrollers, RF Communications, MEMS and Analog, partially offset by lower sales in Automotive, Imaging and Power Discrete. Gross margin of 36.0% decreased 190 bps yoy mainly due to price pressure; yet, results are aligned with the mid-point of the Company's guidance. Regarding 4Q20 outlook, turnover is expected up by 12% qoq (plus or minus 350bps) to \$2.99 and gross margin is seen 38.5% (plus or minus 200 bps).

Dialog Semiconductor: revenues decrease by 5% yoy; 4Q20 sales expected in the range of \$380mln-\$430mln

Dialog Semiconductor reported a -5% yoy 3Q20 revenues to \$386mln, yet 7% above its mid-point outlook range. Sales decline was mostly due to the announced decrease in licensed PMICs; in fact, excluding this segment, revenues would have grown by 24% yoy. Gross margin stood at 48.3%, 90 bps below 3Q19. Regarding 4Q outlook, the Company projects revenue in the range of \$380mln-\$430mln with gross margin be broadly in line with 9M20.

Elmos Semiconductor: revenues 3Q20 above its guidance

Elmos Semiconductor reported 3Q20 revenues at €40.9mln, at the upper end of its guidance range (€37mln to €41mln). Regarding the outlook, the Company sees a significant recovery in its business with very strong sequential growth in Q420 in a

widespread recovery scenario, driven by the rebound of Asia. In FY20 Elmos expects sales between €227mln-€233mln against \$273mln reported in FY2019; EBIT is seen in the range of €6mln-€9mln.

Taiwan Semiconductor: 3Q20 revenues +22% yoy; 4Q20 guidance sales growth raised >30%

Taiwan Semiconductor Manufacturing reported a 36% yoy increase in its net profit in 3Q20 driven by strong revenue growth (+22% yoy), including smartphones (+12% qoq) and high performance computing (+25% yoy). The US Commerce Department in May restricted global chip makers which use US technology from supplying semiconductors to Huawei Technologies. Nonetheless, the analysts said that TSMC was able to offset its Huawei sales losses by reallocating production capacity to other clients. Regarding its outlook TSMC sees 4Q20 operating margin between 40.5% and 42.5% and raised its sales growth guidance at above 30% to between \$12.4bn and \$12.7bn.

Aehr Test Systems: net sales -64% yoy; yet outlook confirmed

Aehr Test Systems reported 1Q21 (ended August 31th): net sales shrank by 64% yoy to \$2.0 mln, negatively impacted by orders cancellations and production delays for silicon photonics transceivers due to Covid-19 restrictions. However, these customers have indicated cancellations as temporary and postpone to the rest of FY21. For the FY21 (ending May 31), Aehr maintains its guidance on revenues to between \$25mln and \$28 mln, which would represent a growth between 12% and 26% yoy.

ASML: 3Q20 revenues at +19% yoy; FY20 guidance confirmed

ASML reported 3Q20 revenues at €3.96bn (+19% yoy) with a gross margin of 47.5%. The Company confirmed its FY20 guidance, expecting 4Q20 revenue between €3.6 bn and €3.8 bn with a gross margin of around 50%. In 2021, ASML expects low double-digit growth. Despite persisting uncertainties due to the macro environment, including the economic impact of Covid-19 and geopolitical developments, secular end market drivers are still in place (such as 5G, AI and high-performance computing) and they will keep fuelling demand for advanced processes.

Advantest Corp revenues +8% yoy; FY guidance raised

Advantest Corp reported an 8% yoy sales increase in 2Q20 (ended 30th September). The Semiconductors test equipment market, the demand for memory test systems and SoC test systems for devices used in data centres and game consoles increased against the backdrop of the worldwide adoption of remote working and of increasing home consumption due to lockdowns. On the other hand, new US restrictions on trade with Chinese smartphone makers led customers in related fields to extend their wait-and-see stance on new investments. Final demand in areas such as automobiles and industrial equipment also weakened due to Covid-19 outbreak. Advantest raised its guidance for FY21 with revenues now projected at ¥275bn vs prior guidance ¥260bn

Chroma Ate: 3Q20 sales +20% yoy; sees rapid development of AI and IoT

Chroma Ate reported 3Q20 sales at NTD 11.4 bn (+20% yoy) mainly driven by Semiconductors and Test Measurement & ATS. Regarding 2020 business outlook the Company projected a rapidly development of AI and IoT and an increase in the application of high-performance chips, such as CPU/GPU. Moreover, the Test Instruments & ATS for power testing solutions are launching new generation of power electronics testing, which will enhance the power density and functional testing for using in green energy, included EV related components, battery module / pack and smart-grid and 5G / Server related power testing.

Cohu: 3Q20 sales at +5% yoy, 4Q20 revenues driven by automotive

Cohu reported a 5% yoy sale growth in 3Q20 sales to \$150.6mln above their previous guidance, driven by the robust mobility segment and by improving in automotive and industrial orders, the Company now expects 4Q20 sales in the range of \$176mln-\$192mln.

Teradyne: 3Q20 sales +41%yoy

Teradyne reported 3Q20 sales at \$819.5mln showing a +41% yoy, driven by record memory and storage test shipments. In addition, the industrial automation sales rose 17% qoq, reflecting the improvement in the manufacturing sector. The industrial automation business had been hit hard by the pandemic-related shutdown. Regarding

the 4Q20 outlook Teradyne projects revenues in the range of \$680mln-\$740mln.

Group overview and 1H20 results

The Group overview

Capital increased due to the Warrants exercised

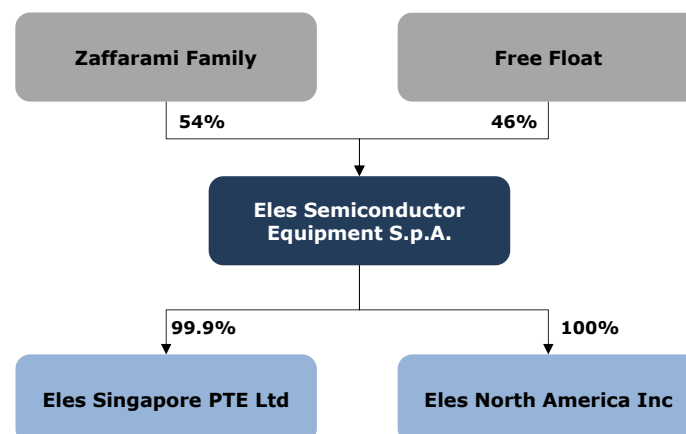
At the end of the first warrants' execution period between 2020 July 1st and July 31st, 238.750 warrants have been exercised thus, 119.375 newly Eles ordinary shares were issued, for a total value of €238.750. Following this capital increased, the new share capital composition is: 45.9% is free float (previously 45.5%); 37.4% is held by Antonio Zaffarami (previously 37.9%); 11.4% is held by Carla Franceschin (previously 11.5%); 5.2% is held by Francesca Zaffarami (previously 5.3%). The dilution effect is 1.1%.

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	37.4%
Carla Franceschin	1,284,474	1,284,474	-	1,284,474	11.4%
Francesca Zaffarami	588,472	588,472	-	588,472	5.2%
Free float	5,061,192	5,061,192	238,750	5,180,567	45.9%
Total	11,157,000	11,157,000	238,750	11,276,375	100.0%

Source: Banca Profilo elaborations on Company data

Figure 3: Eles Group perimeter



Source: Banca Profilo elaborations on Company data

Warrant dilution scenario

In order to provide the potential dilution coming from the warrant exercise, we assumed the 100% conversion of the warrants 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% and into a dilution effect of 22.7%.

Table 2: 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%

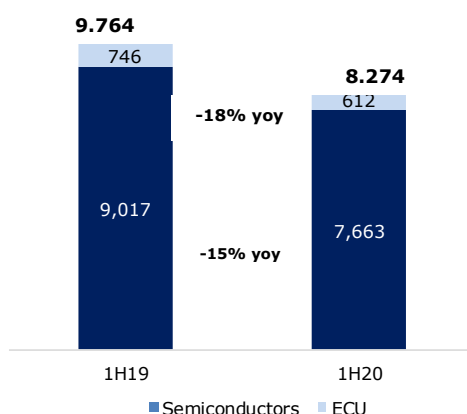
Source: Banca Profilo elaborations on Company data

Main operating and financial data

1H20 revenues: -15% yoy due to Covid-19 impact and Automotive IC decreasing demand

In 1H20, Eles revenues decreased by 15.3% yoy to €8.3mIn (37% of our old FY20 estimate), impacting mainly Test systems turnover following the postponement of investments by costumers and their lower production during the lockdown. However, the decrease in Test systems sales was partially mitigated by growing turnover in Test applications. Sales from the ECU line declined by 18% yoy, reflecting lower demand from Automotive, which had started in 2019 with the diesel gate. The reduction in ECU line revenue was only partially mitigated by sales to Industry and Defence.

Figure 4: Eles revenues 1H19 vs 1H20 (Euro x 1.000)

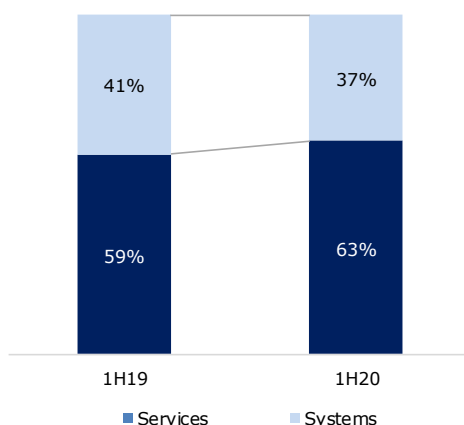


Source: Banca Profilo elaborations on Company data

Semiconductors represent more than 90% of sales

In 1H20, semiconductors sales weighed for more than 90% of total sales, while the rest came from ECU (Electronic Central Unit) and I&D (Industrial and Defence). In 1H20, 63% of total revenue (from 59% in 1H19) came from the production of Test Applications (services) whereas the remaining from Test Systems. The increasing contribution of services to total revenue, especially in this highly uncertain scenario, confirmed its non-cyclical nature.

Figure 5: Revenue breakdown 1H19 vs 1H20 by activity

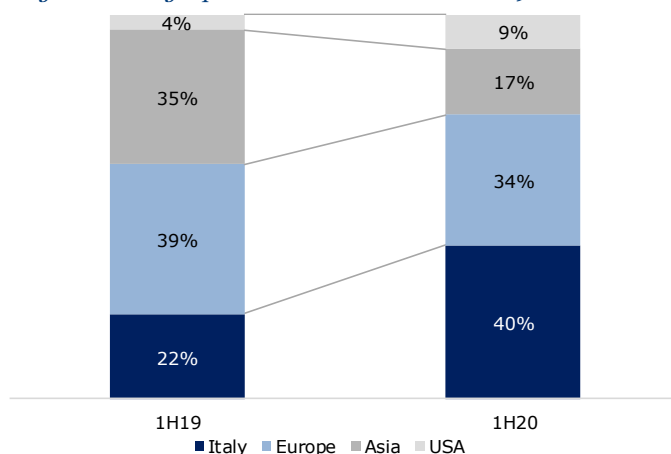


Source: Banca Profilo elaborations on Company data

Decrease to 60% in export sales due to Covid-19 and trade war

In 1H20 Eles increased its presence in Italy to 40% of total sales (22% in 1H19). The reduction in export sales to 60% (78% in 1H19) is linked to the pandemic which led to a production stop in Eles' customers, in addition to the effects of previous trade war between USA and China.

Figure 6: Geographic revenue breakdown 1H19 vs 1H20



Source: Banca Profilo elaborations on Company data

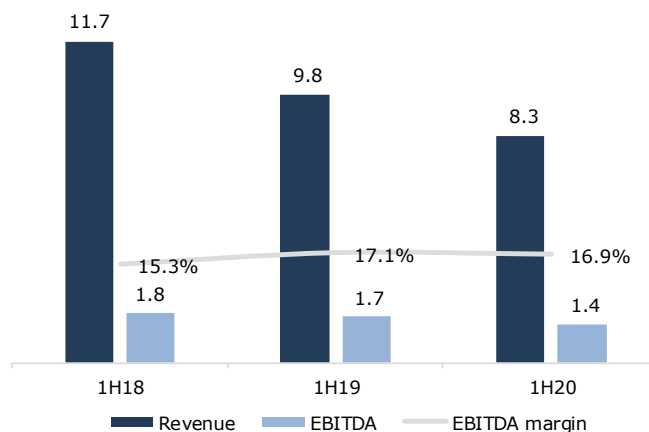
Cost structure: > 70% variable

In 1H20 Eles operating expenses declined by some €1mln to €7.3mln, deriving both from sales decline and from cost cutting. In fact, the Group's cost base, in 1H20 variable costs accounted for more than 70% of the total. Among variable expenses, raw materials weighted 69% and service costs 31%. Within the fixed costs, labour costs made it quite all with a 94% contribution.

Resilience showed by EBITDA margin

In 1H20, EBITDA declined by 16.4% yoy to €1.4mln (32% of our FY20 estimate), better than revenues loss. Consequently, EBITDA margin at 16.9% results in line with 1H19 (17.1%), supported by the Group's variable cost structure and by strategic cost savings and despite the strengthening of its organizational structure, with the introduction of the new CTO. Therefore, Eles well adapts to changing macro and industry trends.

Figure 7: Eles revenue and margins 1H18-1H20 (€mln and %)



Source: Banca Profilo elaborations and estimates on Company data

Net income: €0.4mln in line with 1H19

Finally, net income stood at €0.4mln, perfectly in line with 1H19.

Table 3: Eles financial results 1H19-1H20

Profit & Loss (€/mln)		1H19	1H20
Revenues		9.8	8.3
Others		0.2	0.4
Value of production		10.0	8.7
	yoy	-15.4%	-12.8%
Raw materials		(4.2)	(3.6)
Service costs		(2.0)	(1.6)
Other operating costs		(0.2)	(0.1)
Value added		3.6	3.4
	margin	36.8%	41.0%
Labour costs		(1.9)	(2.0)
EBITDA		1.7	1.4
	margin	17.1%	16.9%
D&A		(0.9)	(0.7)
Provision for risks		(0.0)	(0.0)
EBIT		0.8	0.6
	margin	7.8%	7.6%
Net financial expenses		(0.1)	0.0
EBT		0.7	0.6
Taxes		(0.2)	(0.2)
	tax rate	37.0%	33.2%
Net profit		0.4	0.4
	margin	4.2%	5.2%

Balance Sheet (€/mln)		1H19	1H20
Operating NWC		5.6	6.3
		28%	39%
Sales		20.2	16.0
Fixed assets		8.5	9.2
Net Invested Capital		12.7	15.3
Equity		12.1	12.9
Net debt		0.6	2.4

Source: Banca Profilo elaborations on Company data

Balance Sheet:
NWC increased for sales concentration at the end of 1H20

On the Balance Sheet side, at the end of June 2020, Eles showed an increase of almost €1mln in NWC mainly for the increase in trade receivables due to higher turnover concentration at the end of the semester. Operating NWC stood at €6.3mln from €5.3mln at the end of June 2019, with the ratio on sales increasing to 39% (from 28% at the end of June 2019).

Net debt increased from €2.1mln in 2019 to €2.4mln in 1H20

At the end of June 2020, net debt slightly increased to €2.4mln from €2.1mln in 2019 for the increase in Operating Net Working Capital needs.

Strategy and estimates

Corporate strategies

Management projects:

Main corporate strategy consists 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.

Focus on: 2020E estimates benchmarking

2020E estimates revision following guidance cut and main end-markets trends

We revised our 2020E estimates considering:

- the Automotive IC industry slowdown, main Eles end-market;
- the European Semiconductor Equipment industry slowdown, accounting for the majority of Eles sales;
- Company guidance downward revision in September, then updated by announcing the reaching of the maximum range of indicated sales at €18mln driven by new orders from China

2020E revenues now seen +3% yoy 2019

In 2020 we now project sales at €18.1mln (previous seen at €22.1mln), slightly above 2019 results (+3% yoy).

EBITDA margin reduced by 250 bps to 17.0%

In 2020 we forecast EBITDA at €3.1mln (vs previous seen at €4.3mln), slightly below €3.2mln in 2019, with an EBITDA margin down to 17.0%, from our previous 19.5% (18.2% in 2019), reflecting lower revenues and the strengthening of the organizational structure, only partially offset by a variable cost structure.

Lower Capex for cash shield

On the Balance sheet side, we lowered 2020E Capex to €2.5mIn (vs previous seen at €3.4mIn) from €2.4mIn in 2019 for cash flow shielding given current highly uncertain scenario linked both to the outbreak of Covid-19 and to the trade war. We expect most of the Capex to be addressed to intangible investments due to the importance of R&D in Eles business.

In 2020E we now project NWC at €6.8mIn (previous seen at €5.9mIn) with a ratio to sales at 38%.

Net debt at €1.6mIn

In our previous update we have supposed a warrant fully diluted scenario with a net cash of €4.1mIn. However, at the end of the exercise period in July 2020 only n.238.750 warrants have been exercised. Thus, in our new estimate we consider the capital increase of €0.2mIn. Given the dynamic of NWC and Fixed Asset, we now estimated a net debt of €1.6mIn.

2020E FCF at -€1.3mIn

Overall, FCF is expected at -€1.3mIn in 2020, from previous seen at €0.2mIn reflecting revenues decrease.

Revising our 2020E-2022E estimates and adding 2023E

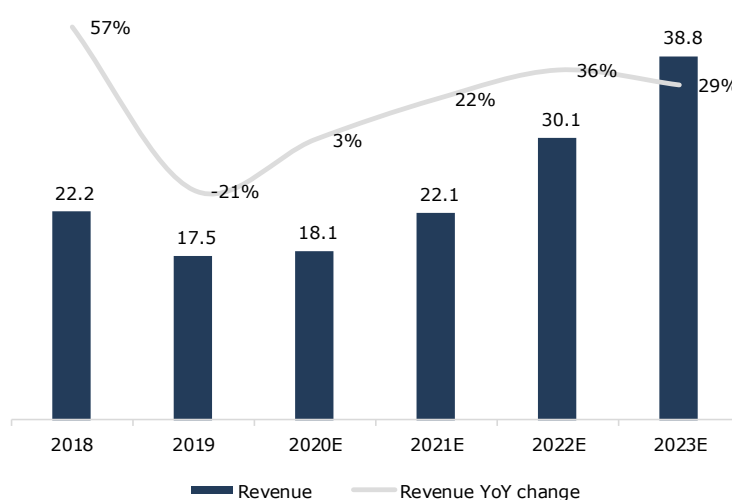
Sales CAGR 2019-2023E at 22% to €39mIn

Despite the decrease in our 2020E estimates due to Covid-19 impact and US-China trade war, we believe that in the long run, main technological drivers remain solid, thus we confirm a revenue growth in 2019-2023E shifting by one year our growth projections. The Company has just announced new orders from China, anticipating a recovery of this significant market from the second part of 2020.

We now project a 22% CAGR 2019-2023E to reach €38.8mIn in 2023E, vs previous 30.4% CAGR 2019-2022E.

Our sales forecasts confirm Eles' main organic growth drivers: i) its strategic and unique positioning; ii) innovative products which will exploit the TBDI market; iii) strategic international partnerships; iv) new customers acquisition in Integrated Device Manufacturer; v) continue attention to the level of investment in innovation.

Figure 8: Eles revenue trend (€mIn) 2018-2023E



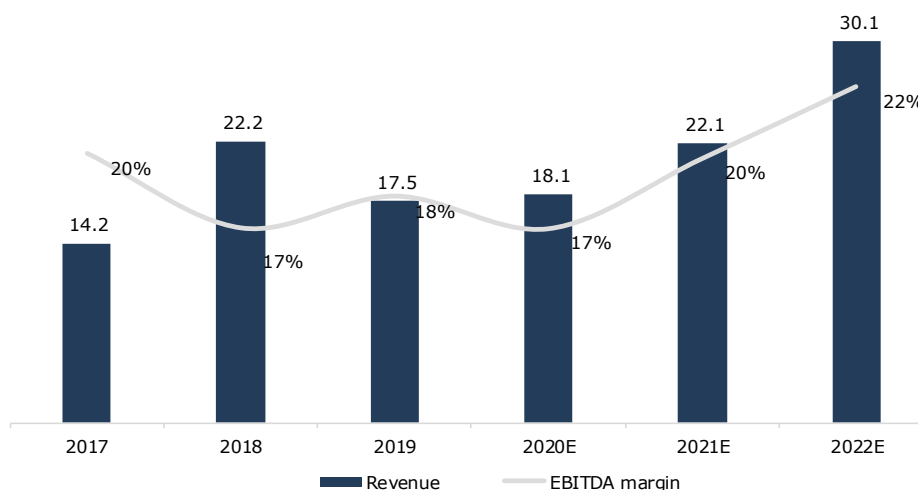
Source: Banca Profilo elaborations and estimates on Company data

EBITDA seen at €9.8mIn or margin above 25% in 2023

In 2020-2023E, we expect Eles to increase significantly its EBITDA to €9.8mIn (32% CAGR) with EBITDA margin reaching 25.2% (+570bps in three years) up from our previous estimates at 19.5% in 2020E and 25.2% in 2022E.

More in details, during 2020E-2023 we forecast: i) the same cost structure based on more than 70% of variable costs; ii) an incidence of labour costs on sales just below 20%, assuming further hiring.

Figure 9: Revenue (€mln) and EBITDA margin (%) trend 2018-2023E



Source: Banca Profilo elaborations and estimates on Company data

Net income in 2023E seen at €4.0mln

In the long run, the decrease in EBITDA is partially mitigated by lower Capex in order to preserve cash, meaning lower D&A. Thus, in 2023E we end up with a net income at €4.0mln from €3.7mln seen in the 2022E.

Table 4: Eles Profit & Loss 2018-2023E

Profit & Loss (€/mln)	2018	2019E Old	2019	2020E Old	2020E New	2021E Old	2021E New	2022E Old	2022E New	2023E New
Revenues	22.2	17.2	17.5	22.1	18.1	30.1	22.1	38.8	30.1	38.8
yoy	56.6%	-22.2%	-21.0%	28.2%	3.1%	36.3%	22.3%	28.8%	36.1%	29.0%
Semiconductor	18.1	16.0	16.1	19.1	16.6	24.1	19.1	30.9	24.0	30.8
% on revenues	82%	92%	92%	87%	92%	80%	86%	80%	80%	79%
ECU	4.1	1.3	1.4	3.0	1.5	6.0	3.0	8.0	6.0	8.0
% on revenues	18%	8%	8%	13%	8%	20%	14%	20%	20%	21%
Others	1.1	0.3	0.7	0.3	0.1	0.3	0.1	0.3	0.2	0.2
Value of production	23.3	17.6	18.2	22.4	18.1	30.5	22.2	39.2	30.3	39.0
yoy	53.9%	-24.6%	-21.9%	27.7%	-0.4%	35.8%	35.8%	28.5%	28.5%	0.0%
Raw materials	(10.1)	(7.6)	(7.1)	(9.6)	(7.6)	(12.8)	(9.3)	(16.0)	(12.3)	(15.5)
Service costs	(4.5)	(3.2)	(3.7)	(3.9)	(3.4)	(5.3)	(4.1)	(6.8)	(5.6)	(7.0)
Other operating costs	(0.4)	(0.3)	(0.5)	(0.3)	(0.4)	(0.3)	(0.5)	(0.3)	(0.5)	(0.5)
Value added	8.2	6.5	7.0	8.6	6.7	12.0	8.3	16.1	11.8	16.0
margin	37.1%	37.7%	40.1%	38.8%	37.1%	39.8%	37.6%	41.3%	39.2%	41.3%
Labour costs	(4.4)	(3.5)	(3.8)	(4.3)	(3.6)	(5.3)	(4.0)	(6.3)	(5.1)	(6.2)
				-19%	-20%	-18%	-18%	-16%	-17%	-16%
EBITDA	3.8	3.0	3.2	4.3	3.1	6.7	4.3	9.8	6.7	9.8
margin	17.0%	17.3%	18.2%	19.5%	17.0%	22.1%	19.5%	25.2%	22.1%	25.2%
D&A	(2.2)	(1.7)	(1.9)	(2.5)	(2.1)	(3.1)	(2.7)	(3.5)	(3.2)	(3.6)
Provision for risks	(0.1)	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
EBIT	1.5	1.2	1.2	1.8	1.0	3.5	1.5	6.1	3.4	6.0
margin	6.6%	7.1%	6.8%	7.9%	5.3%	11.6%	7.0%	15.8%	11.2%	15.6%
Net financial expenses	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.1)	(0.3)	(0.1)	(0.3)	(0.3)
Extraordinary items	-	(0.2)	-	-	-	-	-	-	-	-
EBT	1.2	0.8	1.0	1.6	0.7	3.4	1.3	6.1	3.1	5.8
Taxes	(0.5)	(0.3)	(0.2)	(0.6)	(0.2)	(1.3)	(0.4)	(2.3)	(0.9)	(1.7)
tax rate	38.7%	38.7%	17.0%	38.7%	30.0%	38.7%	30.0%	38.7%	30.0%	30.0%
Net profit	0.8	0.5	0.8	1.0	0.5	2.1	0.9	3.7	2.2	4.0

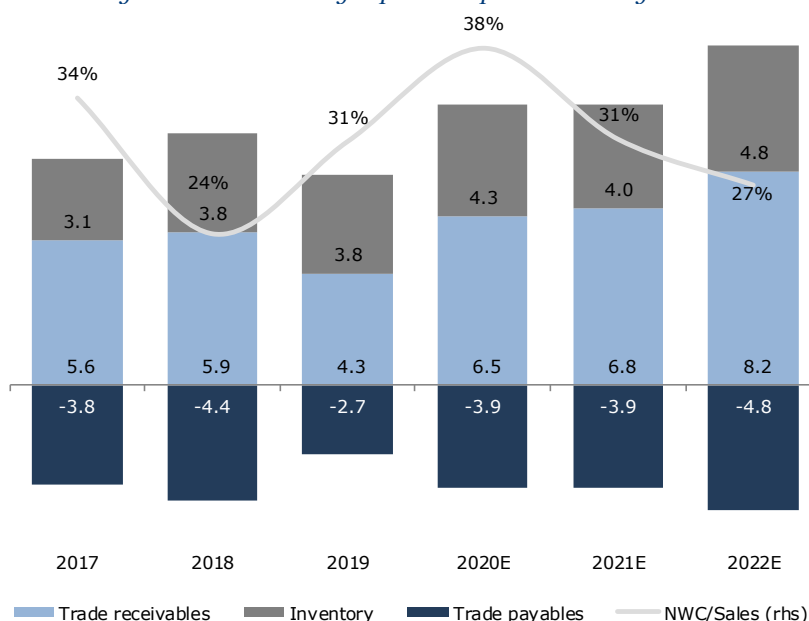
Source: Banca Profilo elaborations and estimates on Company data

**Balance Sheet
projections 2020-2023:
€10.2mIn of cumulated
Capex
€9.5mIn CCN in 2023E**

With regards to our Balance Sheet projections (2020E-2023E), we included:

- €10.2mIn of cumulated Capex (vs previous €9mIn in 2020E-2022E), considering a cut in 2020E (€0.9mIn). However, we still expect high intangible investments (€7.8mIn) in 2020E-2023E as the R&D activity is the key driver for Company growth, mainly addressed to digitalization aimed at process automation (ERP, Cyber Security and PLM software)
- €9.5mIn Operating Net Working Capital in 2023E from €6.8mIn in 2020E (vs previous seen €6.6mIn in 2022E and €5.9mIn in 2020E) coming from higher turnover over the years and some stock piling expected in 2020. DSO are forecasted to decrease thanks increasing Chinese customers that pay immediately, whereas DPO are seen decreasing for the expected rise in imports.

Figure 10: Net working capital composition and dynamics



Source: Banca Profilo elaborations and estimates on Company data

**Operating NWC
optimisation**

Moreover, we expect an operating NWC optimization over the 2020-2023 period with consequent decreasing of its weight on sales to 25% in 2023E from 38% in 2020E.

Table 5: Eles Balance Sheet 2018-2023E

Balance Sheet (€/mln)	2018	2019E Old	2019	2020E Old	2020E New	2021E Old	2021E New	2022E Old	2022E New	2023E New
Stock	3.8	3.9	3.8	3.6	4.3	4.4	4.0	5.0	4.8	6.2
Accounts receivables	5.9	5.5	4.3	6.0	6.5	6.9	6.8	7.7	8.2	9.0
Accounts payables	(4.4)	(3.1)	(2.7)	(3.8)	(3.9)	(5.0)	(3.9)	(6.1)	(4.8)	(5.6)
Operating Net Working Capital	5.2	6.3	5.4	5.9	6.8	6.3	6.8	6.6	8.2	9.5
% on sales	24%	37%	31%	27%	38%	21%	31%	17%	27%	25%
Other current assets & liabilities	(0.9)	(0.9)	-	-	-	-	-	-	-	-
Net Working Capital	4.4	5.4	5.4	5.9	6.8	6.3	6.8	6.6	8.2	9.5
Intangibles	3.6	4.2	3.9	4.9	4.5	5.5	5.2	3.8	3.6	4.9
Materials	3.7	3.6	3.9	4.1	3.7	3.8	3.5	2.9	2.8	1.8
Financials	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Fixed assets	8.3	8.8	8.8	10.0	9.3	10.3	9.8	7.8	7.4	7.7
Funds	(1.3)	(1.1)	(0.9)	(1.5)	(0.8)	(2.1)	(1.0)	(2.9)	(1.3)	(1.8)
Other non current assets & liabilities	0.0	-	1.2	-	-	-	-	-	-	-
Net Invested Capital	11.4	13.2	14.6	14.4	15.3	14.5	15.6	11.5	14.3	15.5
Equity	6.5	12.2	12.5	18.5	13.7	20.5	14.6	24.2	16.7	20.8
Share capital	3.4	4.0	4.0	4.0	4.1	4.0	4.1	4.0	4.1	4.1
Reserves	2.4	7.7	7.7	13.3	9.1	14.2	9.6	16.3	10.5	12.7
Accumulated profit/loss	-	-	-	-	-	-	-	-	-	-
Net profit	0.8	0.5	0.8	1.2	0.5	2.3	0.9	3.9	2.2	4.0
Minorities	-	-	-	-	-	-	-	-	-	-
Net debt (cash)	4.9	1.0	2.1	(4.1)	1.6	(6.0)	1.0	(12.7)	(2.4)	(5.3)
Liabilities	11.4	13.2	14.6	14.4	15.3	14.5	15.6	11.5	14.3	15.5

Source: Banca Profilo elaborations and estimates on Company data

Net cash at €5.3mln in 2020E

We end up with €5.3mln net cash at the end of 2023, including Capex and Operating Net working Capital need.

€6.4mln of cumulated FCFs in 2020E-2023E

In terms of cash flow generation, we project €6.4mln of cumulated Free Cash Flows in 2020E-2023E, below our previous estimate (€7.6mln in the period 2020E-2022E) mainly reflecting lower turnover, higher operating working capital needs, but keeping a high level of Capex to support key R&D activity for growth.

Table 6: Eles Free Cash Flow evolution 2018-2023E

Cash flow (€/mln)	2018	2019E Old	2019	2020E Old	2020E New	2021E Old	2021E New	2022E Old	2022E New	2023E New
EBIT	1.5	1.2	1.2	2.0	1.0	3.7	1.5	6.3	3.4	6.0
taxes	(0.6)	(0.3)	(0.2)	(0.8)	(0.3)	(1.4)	(0.5)	(2.4)	(1.0)	(1.8)
NOPAT	0.9	0.9	1.0	1.2	0.7	2.3	1.1	3.9	2.4	4.2
D&A	2.2	1.7	1.9	2.2	2.1	2.9	2.7	3.4	3.2	3.6
Operating cash flow	3.1	2.6	2.9	3.5	2.7	5.1	3.8	7.2	5.5	7.8
Operating Net Working Capital change	(0.4)	(1.1)	(0.1)	(0.5)	(1.5)	(0.4)	0.0	(0.4)	(1.4)	(1.3)
Other funds	0.1	(0.2)	(0.5)	0.6	(0.0)	0.6	0.2	0.8	0.4	0.4
Capex	(0.7)	(2.2)	(2.4)	(3.4)	(2.5)	(3.2)	(3.2)	(2.4)	(2.4)	(2.1)
	-	-	-	-	-	-	-	5.2	-	-
FCF	2.1	(0.9)	(0.1)	0.2	(1.3)	2.2	0.8	5.2	2.1	4.8

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 and over;

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 €6.4mln of cumulated cash flow;
€1.6mln yearly FCF on average*

To run a DCF model, we use our projections of unlevered FCFs for the 2020E-2023E explicit period: €6.4mln cumulated and €1.6mln on average (vs our previous estimates of €7.6mln and €2.5mln respectively based on 2020E-2022E period). Compared to our previous estimates, we are now considering lower FCFs due to lower revenues growth as a consequence of high uncertain scenario. Nonetheless the slightly decrease in sales considered, we still projected high Capex (only partially cut in 2020E in order to preserve cash due to macroeconomic uncertainty) as the R&D activity is fundamental for Eles business.

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

- an average yearly unlevered FCF of €4.8mln, (vs our previous €5.2mln);
- 2% perpetual growth rate (unchanged).

Table 7: Unlevered FCFs

Cash flow (€/mln)	2019	2020E	2021E	2022E	2023E	TV
EBIT	1.2	1.0	1.5	3.4	6.0	
taxes	(0.2)	(0.3)	(0.5)	(1.0)	(1.8)	
NOPAT	1.0	0.7	1.1	2.4	4.2	
D&A	1.9	2.1	2.7	3.2	3.6	
Operating cash flow	2.9	2.7	3.8	5.5	7.8	
Operating Net Working Capital change	(0.1)	(1.5)	0.0	(1.4)	(1.3)	
Other funds	(0.5)	(0.0)	0.2	0.4	0.4	
Capex	(2.4)	(2.5)	(3.2)	(2.4)	(2.1)	
FCF	(0.1)	(1.3)	0.8	2.1	4.8	4.8

Source: Banca Profilo estimates and elaborations

*DCF assumptions:
WACC at 8.6%*

We apply a WACC of 8.5% (previous seen at 7.1%) 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 1.3, 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.

We end up with a higher WACC (8.6% vs old 7.1%) mainly due to an increase in beta as the average of chosen listed peer to Sciuker (now seen at 1.3 from previous 1.0) and higher market risk premium now considered (5.5% vs prior 5%) due to the very uncertain scenario.

In order to get to the Equity Valuation, we would consider the adjusted net debt as of the end FY20, projected at €1.4mln, in order to include the warrant execution.

Table 8: WACC calculation

WACC Calculation	
perpetual growth rate	2.0%
WACC	8.6%
risk free rate (30Y)	3.0%
equity risk premium	5.5%
beta	1.3
KE	10.2%
cost of debt	0.2%
tax rate	30%
KD	0.1%

Source: Banca Profilo estimates and elaborations

DCF valuation:
€4.9/share

The DCF method leads us to an Enterprise Value of €57.2mln (vs our previous €84.9mln) and to an Equity Value of €55.6mln (from previous €89.0mln) or €4.9/share (vs previous €6.5/share), including €1.6mln of net debt at the end of 2020E.

Table 9: DCF valuation

DCF Valuation	2020E	2021E	2022E	2023E	TV
Free Cash Flows (€/mln)	(1.3)	0.8	2.1	4.8	4.8
years	1.0	2.0	3.0	4.0	
discount factor	0.9	0.8	0.8	0.7	
NPV Cash flows (€/mln)	(1.2)	0.7	1.7	3.5	
Sum of NPVs (€/mln)	(1.2)	(0.5)	1.1	4.6	
Terminal Value (€/mln)					73.2
NPV Terminal Value (€/mln)					52.6
Enterprise Value (€/mln)					57.2
Net debt/ (cash) end of 2020E (€/mln)					1.6
Equity Value (€/mln)					55.6
number of shares (mln)					11.3
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

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

manufacturing

Advantest (JP): ATE test manufacturing

semiconductor manufacturing industry. Its products include wafer contact test systems, test during Burn-In systems, test fixtures and die carriers. In FY19 the company registered revenues for \$21.1mln.

Advantest, 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 13,910mln (€402mln).

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 \$583mln.

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:

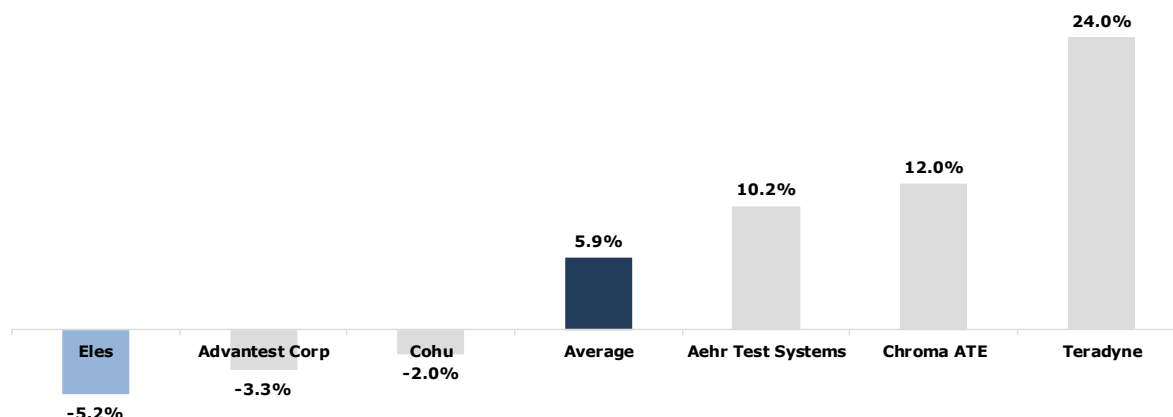
- Semiconductor Test segment (68% of FY19 total revenue) which designs, manufactures, sells, and supports semiconductor test products and services which are used both for wafer level and device package testing;
- Systems Test segment (12% of FY19 total revenue) which comprises of defence and aerospace, 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 10: Market multiples

Company	Country	Currency	Price	Market Cap	Net debt	Minorities	EV
(mln)							
Aehr Test Systems	UNITED STATES	U.S. Dollar	1.38	32.168	-1.491	0.0	30.7
Advantest Corp	JAPAN	Japanese Yen	6,610.00	1,319,136	-116,400	0.0	1,202,736.4
Chroma ATE	TAIWAN	Taiwan Dollar	147.00	61,850	1,343	296.7	63,489.7
Cohu	UNITED STATES	U.S. Dollar	23.44	984	228	0.0	1,211.6
Teradyne	UNITED STATES	U.S. Dollar	101.53	16,860	-489	0.0	16,370.6

Source: Banca Profilo elaborations on elaborations on FactSet (as of 9th November 2020)

Figure 11: 2020E revenue growth (Eles vs peers)

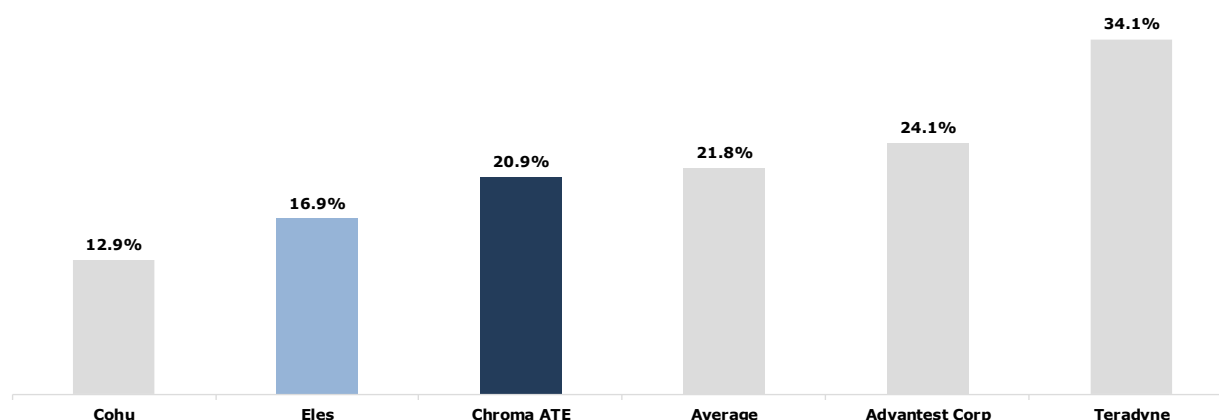


Source: Banca Profilo elaborations on elaborations on FactSet (as of 9th November 2020)

Eles revenues expected to decrease, while its peers should increase by 5.9% yoy in 2020E

In 2020E Eles is expected to slightly decrease in terms of revenues, while on average its peers are expected to lightly increase (-5.2% yoy vs +5.9% respectively).

Figure 12: 2020E EBITDA margin (Eles vs peers)



Source: Banca Profilo elaborations on elaborations on FactSet (as of 9th November 2020)

Eles' EBITDA margin below its peers' average in 2020E

Our projections on Eles' EBITDA margin in 2020E (16.9%) are below its listed peers' average at 20.9%.

EV/EBITDA 2021E-2022E 13.2x

Our sample shows an average EV/EBITDA 2021E-2022E of 13.9x-12.5x.

Table 11: Sample benchmarking

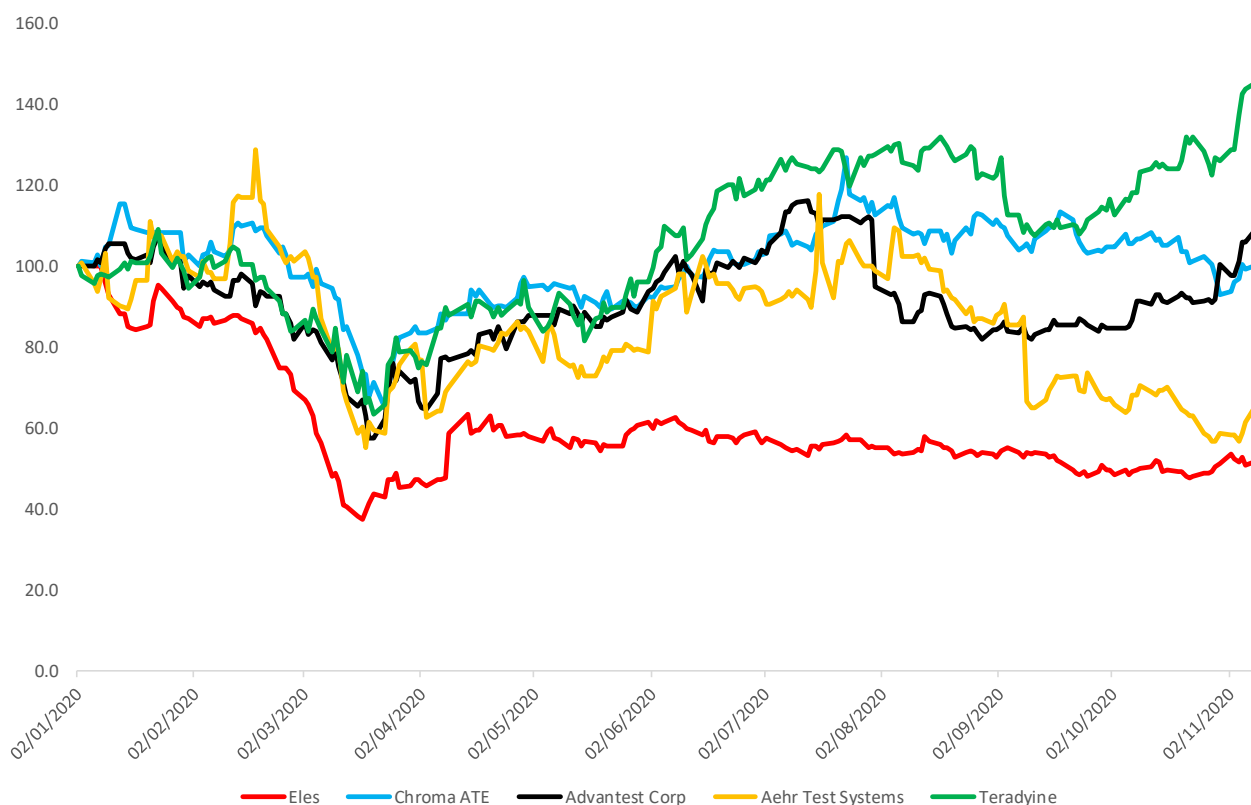
Company	Sales growth					EBITDA margin				
	2017	2018	2019	2020E	2021E	2017	2018	2019	2020E	2021E
Aehr Test Systems	47.0%	-2.3%	-11.5%	10.2%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Advantest Corp	23.3%	35.6%	4.9%	-0.4%	9.2%	13.8%	22.7%	25.1%	24.1%	25.4%
Chroma ATE	28.2%	13.6%	-17.8%	10.5%	14.6%	22.5%	19.8%	18.0%	20.9%	22.6%
Cohu	25.0%	28.1%	29.1%	5.9%	21.5%	n.a.	n.a.	10.5%	12.9%	17.7%
Teradyne	21.9%	-1.7%	9.2%	34.1%	4.9%	31.3%	30.5%	30.1%	34.1%	34.3%
Mean	29.1%	14.7%	2.8%	12.0%	12.5%	22.5%	24.3%	20.9%	23.0%	25.0%
Eles	24.3%	53.9%	-21.9%	-5.2%	28.8%	18.4%	16.2%	17.5%	16.8%	19.4%

Source: Banca Profilo elaborations on elaborations on FactSet (as of 9th November 2020)

Eles' stock underperformed comparing its peers

Analysing Eles' stock trend from the beginning of the year, the stock underperformed if we compare it with its sample benchmarking.

Figures 13: Stocks trend YTD



Source: Banca Profilo elaborations on elaborations on FactSet (as of 11th November 2020)

Eles' stock underperformed the Stoxx 600 Technology index

Analysing Eles' stock trend from the beginning of the year, the stock underperformed if we compare it the Stoxx 600 Technology Index.

Figures 14: *Eles vs Stoxx 600 technology YTD trend*



Source: Banca Profilo elaborations on elaborations on FactSet (as of 11th November 2020)

Relative Valuation on multiples

Market multiples valuation: €4.85/share

To include the uncertain scenario of 2020E and the macrotrend effect in the next month, we decided to use the peers' average EV/EBITDA 2020E-2021E. Our relative valuation based on peers' average EV/EBITDA 2020E-2021E at 15.5x leads to an Equity Value of €54.7mln (vs previous €73.1mln) or €4.85/share (vs previous before €5.34/share).

Table 12: *Market multiples valuation*

Relative Valuation on market multiples			
EV/EBITDA		EBITDA	
2020E	2021E	2020E	2021E
17.2x	13.9x	3.1	4.3
ENTERPRISE VALUE		NET DEBT 2020E	
52.7	59.9	1.6	
EQUITY VALUE			
54.7			
Price per share		4.85	

Source: Banca Profilo elaborations on elaborations on FactSet (as of 9th November 2020)

12-month TP reduced at €4.9/share (from €6.0) BUY confirmed

In light of the high uncertain economic scenario due to Covid-19 impact on worldwide economy and the worsening of US-China affair after the BAN issued by US that had directly impacted Semiconductor Industry, we decided to reduce our Eles 12-month Target Price at €4.9/share as the average of the DCF and market multiple valuations. Given the significant potential upside on Eles' current price we confirm our BUY recommendation.

Table 13: Liquidity indicators

Liquidity indicators			
Start Date	31/05/2020	03/01/2020	03/08/2019
End Date	28/10/2020	01/06/2020	31/12/2019
Days with no trades on total trading days	2%	0%	2%
Average daily volume on free float	0.22%	0.82%	0.48%

Source: Banca Profilo estimates and elaborations on Factset data

Liquidity discount

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.

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Eles "ID Card"	Recommendation	Target Price	Upside
	BUY	4.9 €	77%

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 37.4% stake of the Company, followed by and Carla Franceschin with a 11.4% stake and by Francesca Zaffarami (CEO) with 5.2% . In 2020, the Semiconductors Industry is expected to slow down mainly due to i) lower than expected automotive demand; ii) US-China commercial trade war; iii) Covid-19 related lockdown and travel restrictions impacting some markets strictly linked to the Semiconductors Industry. However, 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. Since 2017, Eles reported an average revenue growth above 11% (CAGR 2017-2019), from €14.2m to €17.5m. In 1H20, Eles revenues decreased by 15.3% yoy to €8.3m, impacting mainly Test systems turnover following the postponement of investments by costumers and their lower production during the lockdown. Despite sales decline, EBITDA margin at 16.9% results in line with 1H19 (17.1%), supported by the Group's variable cost structure and by strategic cost savings and despite the strengthening of its organizational structure. Following Eles guidance revision on 2020E forecast, due to the highly uncertain macroeconomic scenario, the slowdown in Automotive IC and weakening demand of European Semiconductors, we updated our 2020E estimates. Nevertheless, we maintain our growth expectations and we expect a recovery in Semiconductor Industry over the mid-long-term run, as main technological trends and evolution remain solid. We now see revenues at €18.1m (vs our previous estimate at €22.1m) and we forecast sales CAGR 2019-2023E at 22% to reach €38.8m (vs previous 30.4%). In 2020E-2023E we expect Eles to increase significantly its EBITDA to €9.8m, with margin reaching 25.2% (+570bps in three years), up from our previous estimate at 19.5% in 2020E and 25.2% in 2022E, assuming costs optimization. Cumulated operating cash flows are estimated now at €19.9m in 2020E-2023E (vs previous €15.8m in 2020E-2022E) and they will be partially invested in Capex and NWC needs, ending with total FCFs of €6.4m (vs previous €7.6m in 2020E-2022E).

SWOT Analysis

Strengths

- High innovation capability (RETE Approach)
- Sophisticated IP Libraries (Entry barriers)
- Zero Defect Reliability as a requirement
- 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

Threats

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

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 and over
- Potential political market risks coming from a longer than expected trade war

Eles "ID Card"

Recommendation

BUY

Target Price

4.9 €

Upside

77%

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Main Financials					
(€ mln)	2018	2019	2020E	2021E	2022E
Revenues	22.2	17.5	18.1	22.1	30.1
yoy change		-21.0%	3.1%	22.3%	36.1%
Value of production	23.3	18.2	18.1	22.2	30.3
yoy change		-21.9%	-0.4%	22.5%	36.2%
EBITDA	3.8	3.2	3.1	4.3	6.7
yoy change		-15.7%	-3.6%	40.6%	54.2%
margin (%)	17.0%	18.2%	17.0%	19.5%	22.1%
EBIT	1.5	1.2	1.0	1.5	3.4
margin (%)	6.6%	6.8%	5.3%	7.0%	11.2%
EBT	1.2	1.0	0.7	1.3	3.1
margin (%)	5.6%	5.8%	3.9%	5.7%	10.4%
Net income	0.8	0.8	0.5	0.9	2.2
margin (%)	3.4%	4.8%	2.8%	4.0%	7.2%
Net Debt (cash)	4.9	2.1	1.6	1.6	1.6
Shareholders Equity	6.5	12.5	13.7	14.6	16.7
Operating Net Working Capital	5.2	5.4	6.8	6.8	8.2
Fixed assets	8.3	8.8	9.3	9.8	7.4
Net invested capital	11.4	14.6	15.3	15.6	14.3
Operating Free Cash Flow	3.1	2.9	(1.3)	0.8	2.1
Capex and acquisitions	(0.7)	(2.4)	(2.5)	(3.2)	(2.4)
Free Cash Flow	2.1	(0.1)	(1.3)	0.8	2.1

Costs and business scalability analysis					
	2018	2019	2020E	2021E	2022E
Operative costs					
Total operative costs	(19.5)	(15.0)	(15.1)	(17.9)	(23.6)
of which variable	75.0%	71.4%	73.2%	74.8%	75.9%
of which fixed	25.0%	28.6%	26.8%	25.2%	24.1%
% on sales	88.1%	85.8%	83.4%	81.1%	78.5%
Most relevant costs					
Raw materials	(10.1)	(7.1)	(7.6)	(9.3)	(12.3)
% on sales	45.6%	40.3%	42.0%	42.0%	41.0%
Labor costs	(4.4)	(3.8)	(3.6)	(4.0)	(5.1)
% on sales	20.0%	22.0%	20.1%	18.1%	17.1%

Solvability ratios					
	2018	2019	2020E	2021E	2022E
Net debt (cash) / EBITDA	1.3x	0.7x	0.5x	0.2x	-0.4x
Net debt (cash) / Equity	0.7x	0.2x	0.1x	0.1x	-0.1x
Net debt (cash) / Net Invested Capital	42.6%	14.3%	10.5%	6.6%	-17.1%

Financial and Operative ratios					
	2018	2019	2020E	2021E	2022E
Days of receivables	79	73	105	90	80
Days of payables	90	75	106	88	80
Inventories on sales	17.1%	21.5%	23.7%	19.8%	16.8%
Tax rate	38.7%	17.0%	30.0%	30.0%	30.0%
ROIC	6.6%	5.7%	3.3%	5.7%	15.2%
ROE	11.5%	6.7%	3.6%	6.1%	13.0%
Capex/Sales	3.2%	13.5%	13.8%	14.4%	8.0%
D&A to capex	308.5%	81.1%	82.7%	84.6%	132.6%
NWC to sales	23.5%	30.6%	37.8%	30.8%	27.3%

Source: Bloomberg, Banca Profilo estimates and elaborations

Company Description	
Company Sector	Semiconductor testing
Price (€)	2.77
Number of shares (mln)	11.276
Market Cap (€mln)	29.6
Reference Index	FTSE AIM Italia
Main Shareholders	Zaffarini's family
Main Shareholder stake	54%
Free Float	46%
Average Daily Volumes ('000)	57.9
Sample of comparables	Aehr Test Systems, Advantest, Chroma ATE, Cohu, Teradyne.

Data of peers			
	2019	2020E	2021E
Revenue Growth (yoy)	2.8%	12.0%	12.5%
EBITDA margin	20.9%	23.0%	25.0%
Average data			

Multiples of peers		
	2020E	2021E
EV / Sales	3.4x	3.1x
EV / EBITDA	17.2x	13.9x
Average data		

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