

ELES

OUTPERFORM

Price (Eu):

2.62

Target Price (Eu):

4.20

SECTOR: Industrials

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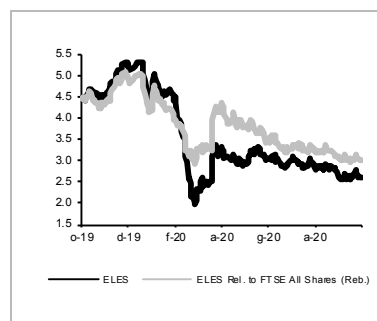
Macro-Driven Guidance Revision Doesn't Impair Market and Company Potential

- **1H20 results: solid profitability despite revenue drop.** In 1H20, ELES's net sales fell 15% YoY as semiconductor clients (93% of revenue) slowed down production volumes and postponed purchases of test systems (testing machines, -30%) to shore up finances due to Covid-19 related concerns, partly offset by more resilient sales of test applications (consumables, co-engineering, software libraries and assistance). Sales under the ECU line (7% of revenue) declined by 18% YoY as weakness in automotive sales was only partly mitigated by Industry&Defense demand. Despite a €1.3mn drop in revenue to €8.7mn, ELES managed to limit the impact on earnings thanks to improved purchasing conditions (gross margin up 0.9pp) and tight cost control, with OpEx down €0.2mn to €3.7mn despite the strengthening of the organisational structure that weighed for €0.3mn without providing a boost to turnover. EBITDA closed at €1.4mn (-24% YoY) with a 16.1% margin vs. 18.5% in 1H19. Net income closed at €0.4mn, +6% YoY, due to lower D&A and no non-recurring costs. Net debt increased slightly to €2.4mn vs €2.1mn at YE19 as billing activity was concentrated at the end of the semester (i.e. NWC build).
- **2020 guidance: revision due to pandemic and increasing trade tensions.** ELES lowered its 2020 guidance, and is now expecting: net sales of €17-18mn with an EBITDA margin of 16.9%-17.1%, implying EBITDA of ~€2.9-3.1mn (previous guidance was: revenue/EBITDA margin/EBITDA of ~€24.2/20%/€4.8mn). The revision comes from external factors such as: i) short-term sector slowdown due to Covid-19, which is translating into a push-out of orders; ii) the ban on Huawei (and possibly other Chinese companies) imposed by the US government that further limits the group's ability to access American technology. Net debt (adjusted) is seen at €1.3-1.4mn (non-adjusted €1.9-2.0mn) as the company is not decelerating the organisational and technological strengthening process.
- **Medium-term guidance: strategic guidelines confirmed, financial targets removed (update on 2021 in November).** The factors affecting the lower 2020 guidance have led the company to scrap the financial targets of the business plan approved in November 2019. Nevertheless, the qualitative guidelines of the plan, which we continue to appreciate, have been maintained: product innovation driven by technological development; consolidation of acquired clients; entrance in new geographical areas and market segments. Moreover, company strengthened the RETE methodology to integrate *Functional Safety* compliance verification and in the next future also *Cybersecurity*. ELES plans to provide guidance on 2021 as early as November of this year. While we expect the global context to remain volatile, we continue to see healthy underlying market prospects for the company.
- **Change in estimate.** In light of the above-mentioned trends and view, we are lowering our estimated revenue and profitability figures, also reflecting lower operating leverage. This leads to an EPS revision of -34% on average between 2020-22. In a nutshell, our new estimates effectively entail pushing back our previous assumptions by 1 year.
- **OUTPERFORM; target from €4.8 to €4.2.** While the lower 2020 guidance and removal of financial targets for 2021/22 is not anything to cheer about, we don't see any impairment to ELES's ability to exploit market opportunities given the macro-driven revision. Indeed, as use of semiconductors spreads to an ever-wider array of critical applications, we expect the testing phase to gain further importance, albeit with a 1-year time lag compared to our previous assumptions. While confirming our OUTPERFORM recommendation, we are lowering our target from €4.8 to €4.2 due to lower estimates, partly offset by the roll-forward of our unchanged valuation framework to 2021.

Key Figures	2018A	2019A	2020E	2021E	2022E
Sales (Eu mn)	23	18	18	23	30
Ebitda (Eu mn)	4	3	3	5	7
Net profit (Eu mn)	1	1	1	1	2
EPS - New Adj.(Eu)	0.068	0.090	0.057	0.117	0.216
EPS - Old Adj.(Eu)	0.068	0.090	0.082	0.196	0.341
DPS (Eu)	0.000	0.000	0.000	0.000	0.000

Ratios & Multiples	2018A	2019A	2020E	2021E	2022E
P/E Adj.	38.8	29.0	46.1	22.4	12.1
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Ebitda Adj.	9.0	9.3	10.3	6.5	4.2
ROCE	12.3%	10.5%	7.9%	14.7%	25.7%

ELES - 12m Performance



RATING: Unchanged

TARGET PRICE (Eu): from 4.80 to 4.20

Ch. in Adj.EPS est: 2020E 2021E
-30.9% -40.1%

STOCK DATA

Reuters code: ELES.MI
Bloomberg code: ELES IM

Performance	1m	3m	12m
Absolute	-4.0%	-12.7%	-42.0%
Relative	-3.7%	-7.6%	-29.6%
12 months H/L:	5.34/1.98		

SHAREHOLDER DATA

No. of Ord. shares (mn): 11
Total No. of shares (mn): 11
Mkt Cap Ord (Eu mn): 29
Total Mkt Cap (Eu mn): 29
Mkt Float - ord (Eu mn): 13
Mkt Float (in %): 45.4%
Main shareholder:
A. Zaffarami 37.8%

BALANCE SHEET DATA

2020
Book value (Eu mn): 13
BVPS (Eu): 1.19
P/BV: 2.2
Net Financial Position (Eu mn): -2
Enterprise value (Eu mn): 31

Please see important disclaimer
on the last page of this report

ELES - KEY FIGURES

		2018A	2019A	2020E	2021E	2022E
	Fiscal year end	31/12/2018	31/12/2019	31/12/2020	31/12/2021	31/12/2022
PROFIT & LOSS (Eu mn)	Sales	23	18	18	23	30
	EBITDA	4	3	3	5	7
	EBIT	1	1	1	2	4
	Financial income (charges)	(0)	(0)	(0)	(0)	(0)
	Associates & Others					
	Pre-tax profit (Loss)	1	1	1	2	4
	Taxes	(0)	(0)	(0)	(1)	(1)
	Tax rate (%)	38.7%	17.1%	35.0%	35.0%	35.0%
	Minorities & discontinue activities	0	0	0	0	0
	Net profit	1	1	1	1	2
	Total extraordinary items	0	(0)	0	0	0
	Ebitda excl. extraordinary items	4	3	3	5	7
PER SHARE DATA (Eu)	Ebit excl. extraordinary items	1	1	1	2	4
	Net profit restated	1	1	1	1	2
	Total shares out (mn) - average fd	11	11	11	11	11
	EPS stated fd	0.068	0.075	0.057	0.117	0.216
	EPS restated fd	0.068	0.090	0.057	0.117	0.216
	BVPS fd	0.586	1.121	1.193	1.304	1.520
	Dividend per share (ord)	0.000	0.000	0.000	0.000	0.000
CASH FLOW (Eu mn)	Dividend per share (sav)					
	Dividend pay out ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
	Gross cash flow	3	3	2	4	5
	Change in NWC	(0)	(3)	0	0	(1)
	Capital expenditure	(1)	(2)	(3)	(2)	(3)
	Other cash items	0	0	0	0	0
	Free cash flow (FCF)	2	(2)	(0)	2	2
	Acquisitions, divestments & others	0	0	0	0	0
	Dividend	0	0	0	0	0
BALANCE SHEET (Eu mn)	Equity financing/Buy-back	0	6	0	0	0
	Change in Net Financial Position	2	3	0	2	2
	Total fixed assets	8	9	10	10	10
	Net working capital	5	6	6	6	7
	Long term liabilities	2	1	1	1	1
	Net capital employed	11	15	15	15	16
	Net financial position	(5)	(2)	(2)	(0)	2
	Group equity	7	13	13	15	17
ENTERPRISE VALUE (Eu mn)	Minorities	0	0	0	0	0
	Net equity	7	13	13	15	17
	Average mkt cap - current	29	29	29	29	29
	Adjustments (associate & minorities)	0	0	0	0	0
RATIOS(%)	Net financial position	(5)	(2)	(2)	(0)	2
	Enterprise value	34	31	31	29	28
	EBITDA margin*	16.7%	18.4%	17.0%	19.4%	22.0%
	EBIT margin*	6.5%	6.5%	6.6%	9.5%	13.1%
	Gearing - Debt/equity	74.5%	16.7%	15.3%	1.1%	-8.8%
	Interest cover on EBIT	6.7	8.7	5.9	11.3	22.2
	Debt/Ebitda	1.29	0.66	0.67	0.04	nm
	ROCE*	12.3%	10.5%	7.9%	14.7%	25.7%
	ROE*	12.3%	8.8%	4.9%	9.4%	15.3%
	EV/CE	2.9	2.4	2.1	1.9	1.8
	EV/Sales	1.5	1.7	1.7	1.3	0.9
GROWTH RATES (%)	EV/Ebit	23.3	23.0	26.5	13.2	7.1
	Free Cash Flow Yield	5.4%	-8.5%	-0.7%	6.4%	5.7%
	Sales	57.0%	-19.4%	-1.7%	30.7%	27.8%
	EBITDA*	35.2%	-11.1%	-9.4%	49.6%	44.9%
	EBIT*	142.7%	-18.8%	-1.0%	89.3%	76.0%
	Net profit	305.4%	10.9%	-23.8%	107.4%	84.5%
	EPS restated	305.4%	33.8%	-37.2%	106.3%	84.5%

* Excluding extraordinary items

Source: Intermonte SIM estimates

1H20 results

Revenue breakdown by geography and business, Income Statement and key cash flow metrics

Net sales by geography	2018A	1H19A	2H19A	2019A	1H20A	2H20E	2020E
APAC	6.6	3.4	1.0	4.5	1.4	1.3	2.7
EMEA	15.2	5.9	6.4	12.3	6.1	7.2	13.3
USA	0.4	0.4	0.3	0.7	0.7	0.8	1.5
Net sales	22.2	9.8	7.8	17.5	8.3	9.2	17.5

YoY growth

APAC	+128.6%	-17.2%	-57.5%	-32.3%	-58.3%	+21.5%	-39.6%
EMEA	+37.2%	-20.6%	-17.2%	-18.9%	+2.8%	+13.1%	+8.1%
USA	+82.8%	+254.9%	+13.9%	+79.5%	+84.0%	+121.5%	+101.3%
Net sales	+56.6%	-16.8%	-25.8%	-21.0%	-15.3%	+19.0%	-0.1%

Net sales by business	2018A	1H19A	2H19A	2019A	1H20A	2H20E	2020E
Semiconductors	18.1	9.0	7.1	16.1	7.7	8.3	15.9
ECU (Auto & Others)	4.1	0.8	0.6	1.4	0.6	1.0	1.6
Net sales	22.2	9.8	7.8	17.5	8.3	9.2	17.5

YoY growth

Semiconductors	+39.9%			-11.2%	-14.5%	+16.0%	-1.0%
ECU (Auto & Others)	+234.3%			-65.1%	-24.0%	+52.4%	+10.2%
Net sales	+56.6%			-21.0%	-15.3%	+19.0%	-0.1%

	2018A	1H19A	2H19A	2019A	1H20A	2H20E	2020E
Revenue	22.6	10.0	8.3	18.2	8.7	9.2	17.9
YoY growth	+57.0%	-15.4%	-23.8%	-19.4%	-12.8%	+11.6%	-1.7%
- Material purchase	(9.4)	(4.2)	(2.9)	(7.1)	(3.6)	(3.2)	(6.8)
Gross profit	13.2	5.8	5.4	11.2	5.1	6.0	11.1
YoY growth	+44.5%	-15.0%	-15.8%	-15.4%	-11.4%	+10.9%	-0.6%
Gross margin %	58.4%	58.0%	65.3%	61.3%	58.9%	64.8%	61.9%
- Total operating expenses	(9.4)	(3.9)	(3.9)	(7.8)	(3.7)	(4.3)	(8.0)
Adj. EBITDA	3.8	1.8	1.5	3.4	1.4	1.6	3.0
YoY growth	+35.2%	+2.8%	-23.8%	-11.1%	-24.3%	+8.7%	-9.4%
Adj. EBITDA margin %	16.7%	18.5%	18.3%	18.4%	16.1%	17.9%	17.0%
- D&A and others	(2.3)	(0.9)	(1.1)	(2.0)	(0.8)	(1.1)	(1.9)
Adj. EBIT	1.5	0.9	0.4	1.4	0.6	0.6	1.2
YoY growth	+142.7%	+54.0%	-49.7%	-7.0%	-32.5%	+26.8%	-13.6%
Adj. EBIT margin %	6.5%	9.3%	5.3%	7.5%	7.2%	6.0%	6.6%
- Non-recurring costs	0.0	(0.2)	0.0	(0.2)	0.0	0.0	0.0
-/+ Net fin. (exp.)/inc.	(0.2)	(0.1)	(0.1)	(0.2)	(0.0)	(0.2)	(0.2)
- Profit/Losses on exchange rates	(0.0)	(0.0)	0.0	(0.0)	0.0	(0.0)	0.0
Profit before tax	1.2	0.7	0.4	1.0	0.7	0.3	1.0
- Tax income	(0.5)	(0.2)	0.1	(0.2)	(0.2)	(0.1)	(0.3)
Tax rate %	38.7%	37.0%	-19.3%	17.1%	33.2%	38.5%	35.0%
Net income	0.8	0.4	0.4	0.8	0.4	0.2	0.6
YoY growth	+305.4%	+48.0%	-10.7%	+10.9%	+5.9%	-52.3%	-23.8%
Net income margin %	3.3%	4.1%	5.2%	4.6%	5.0%	2.2%	3.6%
- Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income attr. to shareholders	0.8	0.4	0.4	0.8	0.4	0.2	0.6
YoY growth	+305.4%	+48.0%	-10.7%	+10.9%	+5.9%	-52.3%	-23.8%
Net income margin %	3.3%	4.1%	5.2%	4.6%	5.0%	2.2%	3.6%
Cash flow from operations	2.3	0.2	(0.3)	(0.1)	0.8	1.9	2.7
Capex	(0.7)	(0.9)	(1.5)	(2.4)	(1.1)	(1.8)	(2.9)
FCF (ex. acq)	1.6	(0.7)	(1.8)	(2.5)	(0.3)	0.1	(0.2)
Net debt/(cash)	4.9	0.6	2.1	2.1	2.4	2.0	2.0
Net debt/EBITDA	1.3 x	0.2 x	0.6 x	0.6 x	0.8 x	0.7 x	0.7 x

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

Change in estimate

Change in estimate

	2020E	New 2021E	2022E	2020E	Old 2021E	2022E	2020E	Diff. % 2021E	2022E
Revenue	17.9	23.4	29.9	21.9	29.9	38.2	-18%	-22%	-22%
YoY growth	-1.7%	30.7%	27.8%	20.2%	36.5%	27.8%	-2196 bps	-580 bps	2 bps
Gross profit	11.1	14.7	19.2	13.3	18.7	24.5	-16%	-21%	-22%
YoY growth	-0.6%	32.6%	30.2%	19.0%	40.7%	31.1%			
Gross margin %	61.9%	62.8%	64.1%	60.6%	62.5%	64.1%	133 bps	38 bps	-4 bps
Adj. EBITDA	3.0	4.5	6.6	3.9	6.4	9.3	-22%	-29%	-29%
YoY growth	-9.4%	49.6%	44.9%	15.8%	63.7%	45.5%			
Adj. EBITDA margin %	17.0%	19.4%	22.0%	17.7%	21.3%	24.2%	-76 bps	-184 bps	-219 bps
Adj. EBIT	1.2	2.2	3.9	1.6	3.6	6.0	-27%	-37%	-35%
YoY growth	-13.6%	89.3%	76.0%	17.9%	120.8%	70.2%			
Adj. EBIT margin %	6.6%	9.5%	13.1%	7.3%	11.9%	15.8%	-76 bps	-234 bps	-269 bps
Adj. EPS	0.06	0.12	0.22	0.08	0.20	0.34	-31%	-40%	-37%
YoY growth	-37.2%	106.3%	84.5%	-9.1%	138.0%	74.6%			
Net debt/(cash)	2.0	0.2	(1.5)	1.7	0.8	(1.8)	20%	-79%	-18%
Net debt/EBITDA	0.7 x	0.0 x	(0.2 x)	0.4 x	0.1 x	(0.2 x)			

Source: Intermonte SIM

Valuation

Valuation summary

	Fair value per share	Probability	Fair value weighted
Base case @ our estimate	3.4	70%	2.3
Bull case @ company's BP targets (1y shift)	6.2	30%	1.9
Target price			4.2
Actual share price			2.6
Upside/(Downside)			60%

Source: Intermonte SIM

Financials

Income statement

	2016A	2017A	2018A	2019A	2020E	2021E	2022E
Revenue	12.5	14.4	22.6	18.2	17.9	23.4	29.9
YoY growth	+0.0%	+15.3%	+57.0%	-19.4%	-1.7%	+30.7%	+27.8%
- Material purchase	(5.1)	(5.3)	(9.4)	(7.1)	(6.8)	(8.7)	(10.7)
Gross profit	7.4	9.1	13.2	11.2	11.1	14.7	19.2
YoY growth	+0.0%	+23.2%	+44.5%	-15.4%	-0.6%	+32.6%	+30.2%
Gross margin %	59.4%	63.4%	58.4%	61.3%	61.9%	62.8%	64.1%
- Total operating expenses	(4.9)	(6.3)	(9.4)	(7.8)	(8.0)	(10.2)	(12.6)
Adj. EBITDA	2.5	2.8	3.8	3.4	3.0	4.5	6.6
YoY growth	+0.0%	+12.7%	+35.2%	-11.1%	-9.4%	+49.6%	+44.9%
Adj. EBITDA margin %	19.9%	19.4%	16.7%	18.4%	17.0%	19.4%	22.0%
- D&A and others	(2.1)	(2.2)	(2.3)	(2.0)	(1.9)	(2.3)	(2.7)
Adj. EBIT	0.4	0.6	1.5	1.4	1.2	2.2	3.9
YoY growth	+0.0%	+46.6%	+142.7%	-7.0%	-13.6%	+89.3%	+76.0%
Adj. EBIT margin %	3.3%	4.2%	6.5%	7.5%	6.6%	9.5%	13.1%
- Non-recurring costs	0.0	0.0	0.0	(0.2)	0.0	0.0	0.0
-/+ Net fin. (exp.)/inc.	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
- Profit/Losses on exchange rates	0.0	(0.0)	(0.0)	(0.0)	0.0	0.0	0.0
Profit before tax	0.1	0.4	1.2	1.0	1.0	2.0	3.7
- Tax income	(0.1)	(0.2)	(0.5)	(0.2)	(0.3)	(0.7)	(1.3)
Tax rate %	83.8%	47.3%	38.7%	17.1%	35.0%	35.0%	35.0%
Net income	0.0	0.2	0.8	0.8	0.6	1.3	2.4
YoY growth	+0.0%	+675.0%	+305.4%	+10.9%	-23.8%	+107.4%	+84.5%
Net income margin %	0.2%	1.3%	3.3%	4.6%	3.6%	5.6%	8.2%
- Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income attr. to shareholders	0.0	0.2	0.8	0.8	0.6	1.3	2.4

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

Balance sheet

	2016A	2017A	2018A	2019A	2020E	2021E	2022E
Trade net working capital	3.5	4.8	5.2	5.4	5.1	4.8	5.4
Other current asset/(liab.)	0.0	(0.6)	(0.6)	1.1	1.1	1.1	1.1
Net working capital	3.5	4.2	4.6	6.5	6.2	5.9	6.6
Net fixed assets	10.8	9.7	8.4	9.2	10.2	10.0	10.1
Non-current liabilities	(2.4)	(1.5)	(1.5)	(1.1)	(1.1)	(1.1)	(1.1)
Non-current asset/(liab.)	8.4	8.2	6.8	8.1	9.2	8.9	9.1
Net capital employed	11.9	12.4	11.4	14.6	15.4	14.9	15.6
Net debt/(cash)	6.3	6.6	4.9	2.1	2.0	0.2	(1.5)
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity	5.6	5.8	6.5	12.5	13.4	14.7	17.1
Invested capital	11.9	12.4	11.4	14.6	15.4	14.9	15.6

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

Cash flow statement

	2016A	2017A	2018A	2019A	2020E	2021E	2022E
NFP beginning of the period		(6.3)	(6.6)	(4.9)	(2.1)	(2.0)	(0.2)
Net Income		0.2	0.8	0.8	0.6	1.3	2.4
D&A		2.2	2.2	1.9	1.8	2.2	2.5
Change in working capital & Others		(1.7)	(0.7)	(2.9)	0.2	0.3	(0.6)
Cash flow from operations		0.6	2.3	(0.1)	2.7	3.9	4.3
Capex		(0.9)	(0.7)	(2.4)	(2.9)	(2.0)	(2.7)
FCF (ex. acq)		(0.3)	1.6	(2.5)	(0.2)	1.9	1.7
Acquisitions		0.0	0.0	0.0	0.0	0.0	0.0
Dividends, buybacks and equity financing		0.0	0.0	6.0	0.2	0.0	0.0
Others (incl. IFRS 16)		(0.0)	0.1	(0.7)	0.0	0.0	0.0
Change in NFP		(0.3)	1.7	2.8	0.0	1.9	1.7
NFP end of the period		(6.6)	(4.9)	(2.1)	(2.0)	(0.2)	1.5

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

Market Multiples and performance

Market multiples

	EV/EBITDA			EV/EBIT			PE		
	2019A	2020E	2021E	2019A	2020E	2021E	2019A	2020E	2021E
ELES @ our TP	14.0 x	15.4 x	9.9 x	39.4 x	39.8 x	20.2 x	46.4 x	73.9 x	35.8 x
ELES @ our est.	9.0 x	9.9 x	6.2 x	25.3 x	25.5 x	12.6 x	29.0 x	46.1 x	22.4 x
ELES @ cons. est.	8.9 x			21.5 x			30.8 x		
TERADYNE	20.7 x	15.3 x	14.2 x	24.1 x	17.2 x	16.2 x	30.7 x	22.6 x	21.0 x
COHU	15.4 x	14.7 x	10.0 x	31.3 x	22.2 x	11.5 x	212.4 x	37.0 x	14.6 x
AEHR TEST SYSTEMS								26.8 x	
ADVANTEST	14.4 x	15.8 x	11.5 x	16.9 x	19.5 x	13.8 x	20.8 x	27.2 x	20.1 x
CHROMA ATE	26.3 x	18.8 x	14.9 x	32.1 x	21.2 x	16.5 x	34.1 x	24.5 x	16.5 x
AVERAGE	19.2 x	16.1 x	12.6 x	26.1 x	20.0 x	14.5 x	74.5 x	27.6 x	18.1 x
Disc. vs our est. AVG	-53%	-39%	-51%	-3%	27%	-13%	-61%	67%	24%

Source: Intermonte SIM estimate and FactSet

Performance

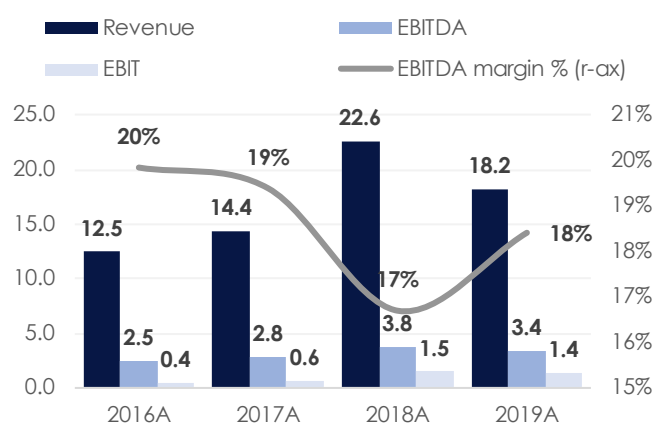
	PX (Lcl Cny)	MKT C. (€ mn)	-1m	-3m	-6m	YTD	-1y	-2y	19/06/19
ELES	2.6	28	-4.0%	-12.7%	-21.6%	-49.8%	-42.0%		-30.9%
TERADYNE	87.9	12,342	+15.1%	-1.9%	+41.1%	+28.4%	+50.1%	+172.2%	+94.8%
COHU	19.1	677	+8.9%	+11.9%	+24.0%	-15.7%	+27.9%	-6.6%	+22.4%
AEHR TEST SYSTEMS	1.3	26	-10.7%	-29.8%	-18.8%	-32.7%	-26.8%	-34.3%	-16.8%
ADVANTEST	5,610.0	8,965	+10.1%	-15.7%	+12.2%	-7.5%	+7.7%	+168.5%	+116.1%
CHROMA ATE	151.5	1,878	-8.7%	-5.1%	+16.3%	+5.9%	+1.7%	+22.6%	+13.0%
MARKET FTSE MIB			-0.2%	-5.5%	+14.2%	-17.1%	-12.7%	+2.1%	-8.2%
PEERS			+2.9%	-8.1%	+15.0%	-4.3%	+12.1%	+64.5%	+45.9%
ELES vs MARKET FTSE MIB			-3.8%	-7.1%	-35.7%	-32.7%	-29.3%		-22.7%
ELES vs PEERS			-7.0%	-4.5%	-36.5%	-45.5%	-54.2%		-76.8%

Source: FactSet

Company profile

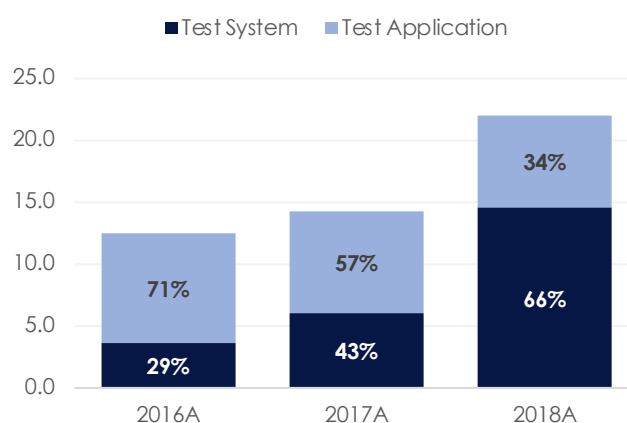
Founded in 1988 in Todi near Perugia (Italy) by the current company President Antonio Zaffarami, Eles Semiconductor (Ticker: ELES) operates in the business of testing systems for Integrated Circuits (ICs or simply "chips"), offering testing solutions for microelectronics components. The solutions provided to its clients consist of a modular testing machine that the company designs and assembles (Test System, 66% of turnover in 2018) and more stable and visible support activities, namely providing consumables for the testing phase, co-engineering services, the sharing of software libraries and technical assistance (Test Application, 34% of turnover in 2018). Its customers are mainly semiconductors companies that carry out their own development activities and most of the manufacturing process (so called IDMs or Integrated Device Manufacturers), and also Fabless and Test & Assembly companies, the combination of which represents 93% of ELES's 2019 revenue base. In 2015 the company identified a growth opportunity in marketing its solutions to Electronic Control Unit (ECU) Suppliers, and this type of customer accounts for around 7% of turnover. However, we highlight the high customer concentration, as 70% of turnover is generated by the main client, while the top 3 represent 80%.

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



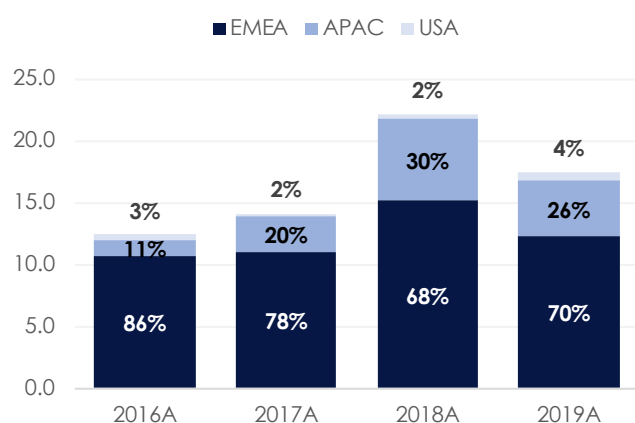
Source: company data

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



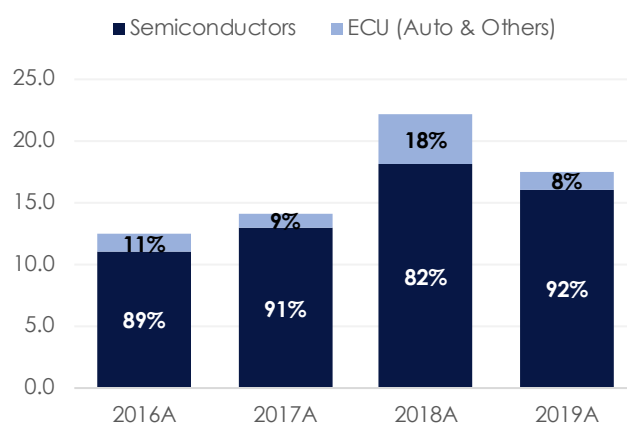
Source: company data

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



Source: company data

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



Source: company data

DETAILS ON STOCKS RECOMMENDATION

Stock NAME	ELES		
Current Recomm:	OUTPERFORM	Previous Recomm:	OUTPERFORM
Current Target (Eu):	4.20	Previous Target (Eu):	4.80
Current Price (Eu):	2.62	Previous Price (Eu):	3.18
Date of report:	21/10/2020	Date of last report:	29/05/2020

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The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/ earnings (P/E), EV/EBITDA, EV/EBIT, price /sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 2.5% and a risk premium of 5.0% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the S&P500 Index, most of those on the MIBEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newswell.

A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

Explanation of our ratings system:

BUY: stock expected to outperform the market by over 25% over a 12 month period;

OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;

NEUTRAL: stock performance expected at between +10% and -10% compared to the market over a 12 month period;

UNDERPERFORM: stock expected to underperform the market by between -10% and -25% over a 12 month period;

SELL: stock expected to underperform the market by over 25% over a 12 month period.

Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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As at 30 September 2020 IntermonTE's Research Department covered 124 companies. IntermonTE's distribution of stock ratings is as follows:

BUY:	07.44 %
OUTPERFORM:	52.07 %
NEUTRAL:	33.88 %
UNDERPERFORM	06.61 %
SELL:	00.00 %

The distribution of stock ratings for companies which have received corporate finance services from IntermonTE in the last 12 months (52 in total) is as follows:

BUY:	11.54 %
OUTPERFORM:	59.62 %
NEUTRAL:	28.84 %
UNDERPERFORM	00.00 %
SELL:	00.00 %

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IKF	0,57	SHORT
LIFE CARE CAPITAL	0,59	LONG
OLIDATA	0,74	SHORT

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