

COVID-19 Resilience Test Passed

ADD | Fair Value: €5.45 (€4.09) | Current Price: €4.07 | Upside: 33.9%

€ Million	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Total Revenue:	14.4	22.6	18.2	19.1	24.9	29.8	37.4
EBITDA	2.8	3.8	3.4	3.5	5.1	6.6	8.9
margin	19.4%	16.7%	18.4%	18.5%	20.4%	22.0%	23.7%
Net Profit	0.2	0.8	0.8	1.7	1.9	2.5	3.9
margin	1.3%	3.3%	4.6%	8.8%	7.5%	8.3%	10.4%
EPS	n.a.	n.a.	0.08	0.15	0.16	0.22	0.34

Source: Company Data, KT&Partners' Elaboration. Note: EBITDA margin as % on total revenues

FY20 results. ELES' sales amounted to €18.1mn, +3.4% YoY and +7% above our expectations. The Semiconductor business line accounted for 92% of sales, while ECU registered a +1.2% YoY. EBITDA came in at €3.5mn – +19.8% higher than our estimates (mainly following higher than expected R&D government grants and lower incidence of other operating costs) – with an EBITDA margin (as % on total revenue) of 18.5%, +1.8pp above our projections but almost in line with FY19. This result is even more positive considering that the Company has strengthened its organizational structure, whose economic results are not yet fully reflected in the current financials. Net cash position adjusted equals €0.5mn, mainly following the postponement of investments to FY21.

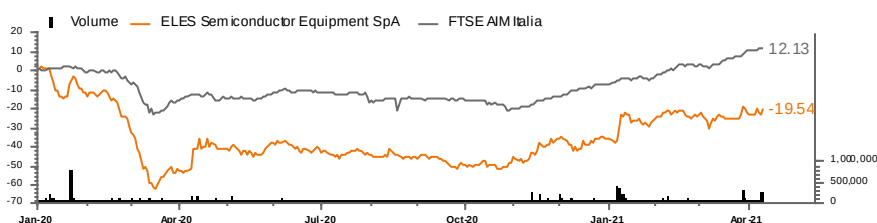
Recent developments. Despite the pandemic, in 2020 ELES strengthened its business by acquiring new orders and signing new partnerships. The company has official recognition as a qualified supplier of reliability test solutions from a major Chinese player in the fabless semiconductor world. The company is also reducing its historical clients' concentration by expanding its client base to strategic customers in Far-East, USA and Israel (one of the main tech centers). Moreover, to increasingly automate its service provision, the company signed an agreement with Relatech, implementing its services with AI and machine learning technologies.

Chip shortage as key driver for future growth. After a strong 2020 performance, in 2021 the semiconductor market is expected to further increase by 8.4% YoY, mainly driven by: i) an increasing demand for 5G and high-performance computing applications; and ii) the recovery in the automotive sector, which was hit hard in 2020 by a global chip shortage. Following this supply chain disruption, all countries' purpose is to reduce reliance on sourcing key technology from abroad; Europe is creating an advanced semiconductor foundry, with the aim to reach 20% of semiconductor global production by 2030.

Estimates review. On the back of ELES's FY20 results and the expected growth of the semiconductor and automotive market in 2021, we left our top line and EBITDA margin estimates unchanged over the 2021–23 period. We revised downward our net income estimates, due to an increase in D&As following higher scheduled investments. Net income is expected to grow at a CAGR20–23E of 32%, reaching €3.9mn in 2023.

Valuation. Our valuation – based on both EV/EBITDA multiples and DCF method, and considering the warrant dilution effect – returns a fair value of €5.45ps (+34% on the current price and +33% on our latest update, mainly due to its peers' multiple expansion following an average increase in their stock performance of +85%).

Relative Performance Chart since January 2020



Research Update

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Equity Research Team

connect@ktepartners.com

Federica FIORENZA

ffioranza@ktepartners.com

Mauro IACCINO

miaccino@ktepartners.com

Market Data

Main Shareholders	
Zaffarami Antonio	37.32%
Franceschin Carla	11.35%
Zaffarami Francesca	5.20%
Mkt Cap (€ mn)	46.1
EV (€ mn)	45.5
Shares issued (mn)	11.32
Free Float (%)	46%

Market multiples	2020	2021	2022
EV/EBITDA			
ELES	12.9x	9.0x	6.9x
Comps median	25.8x	18.6x	16.4x
ELES vs Median	-50%	-52%	-58%

Stock Data

52 Wk High (€)	4.46
52 Wk Low (€)	2.45
Avg. Daily Trading 90d	62,578
Price Change 1w (%)	4.6%
Price Change 1m (%)	20.4%

KT&PARTNERS PREPARED THIS DOCUMENT PURSUANT TO AN ENGAGEMENT LETTER ENTERED INTO WITH BPER BANCA S.P.A. ACTING AS SPECIALIST IN ACCORDANCE WITH ART. 35 OF AIM ITALIA MARKET RULES FOR COMPANIES

Key Figures – ELES S.p.A.

	Current price (€)	Fair Value (€)	Sector					Free Float (%)
	4.07	5.45	Semiconductor Testing					46.13%
Per Share Data	2017A	2018A	2019A	2020A	2021E	2022E	2023E	2024E
Total shares outstanding (mn)	n.m.	n.m.	11.16	11.32	11.32	11.32	11.32	11.32
EPS	n.m.	n.m.	0.08	0.15	0.16	0.22	0.34	0.50
Dividend per share (ord)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Dividend pay out ratio (%)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Profit and Loss (EUR million)								
Revenues	14.4	22.6	18.2	19.1	24.9	29.8	37.4	42.2
EBITDA	2.8	3.8	3.4	3.5	5.1	6.6	8.9	10.2
EBIT	0.6	1.5	1.4	1.6	2.9	3.8	5.7	8.3
EBT	0.4	1.2	1.0	1.5	2.6	3.5	5.5	8.0
Taxes	(0.2)	(0.5)	(0.2)	0.2	(0.8)	(1.0)	(1.6)	(2.3)
Tax rate	47%	39%	17%	-16%	29%	29%	29%	29%
Net Income	0.2	0.8	0.8	1.7	1.9	2.5	3.9	5.7
Net Income attributable to the Group	0.2	0.8	0.8	1.7	1.9	2.5	3.9	5.7
Balance Sheet (EUR million)								
Total fixed assets	9.6	8.3	8.8	8.5	10.3	10.0	8.6	8.4
Net Working Capital (NWC)	4.0	4.4	6.6	6.3	8.4	9.5	10.7	11.7
Provisions	(1.3)	(1.3)	(0.9)	(0.9)	(1.3)	(1.7)	(2.2)	(2.7)
Total Net capital employed	12.4	11.4	14.6	13.9	17.4	17.8	17.1	17.5
Net financial position/(Cash)	6.6	4.9	2.1	(0.5)	1.1	(1.0)	(5.5)	(10.9)
Group Shareholder's Equity	5.8	6.5	12.5	14.4	16.3	18.8	22.7	28.3
Minorities	-	-	-	-	-	-	-	-
Total Shareholder's Equity	5.8	6.5	12.5	14.4	16.3	18.8	22.7	28.3
Cash Flow (EUR million)								
Net operating cash flow	-	3.3	3.1	3.8	4.2	5.5	7.2	7.8
Change in NWC	-	(0.4)	(2.2)	0.3	(2.1)	(1.1)	(1.2)	(1.1)
Capital expenditure	-	(0.7)	(2.4)	(2.1)	(4.0)	(2.5)	(1.8)	(1.8)
Other cash items/Uses of funds	-	0.3	0.6	0.6	0.4	0.4	0.5	0.5
Free cash flow	-	1.9	(2.0)	2.5	(1.5)	2.3	4.7	5.5
Enterprise Value (EUR million)								
Market Cap	n.a.	n.a.	51.8	34.0	46.1	46.1	46.1	46.1
Minorities	-	-	-	-	-	-	-	-
Net financial position/(Cash)	6.6	4.9	2.1	(0.5)	1.1	(1.0)	(5.5)	(10.9)
Enterprise value	n.a.	n.a.	54	34	47	45	41	35
Ratios								
EBITDA margin	19.4%	16.7%	18.4%	18.5%	20.4%	22.0%	23.7%	24.2%
EBIT margin	4.2%	6.5%	7.5%	8.2%	11.6%	12.6%	15.3%	19.6%
Gearing - Debt/equity	114.9%	74.5%	16.7%	-3.7%	6.8%	-5.3%	-24.5%	-38.4%
Interest cover on EBIT	41.6%	16.0%	13.4%	6.7%	8.7%	6.7%	4.4%	3.0%
NFP/EBITDA	2.37x	1.29x	0.62x	-0.15x	0.22x	-0.15x	-0.63x	-1.07x
ROCE	4.9%	12.8%	9.4%	11.2%	16.5%	21.1%	33.4%	47.4%
ROE	3.2%	11.5%	6.7%	11.7%	11.4%	13.2%	17.1%	20.1%
EV/Sales	3.2x	2.0x	2.5x	2.4x	1.8x	1.5x	1.2x	1.1x
EV/EBITDA	16.3x	12.1x	13.6x	12.9x	9.0x	6.9x	5.1x	4.5x
P/E	248.9x	45.2x	40.6x	27.3x	24.7x	18.5x	11.9x	8.1x
Free cash flow yield	0.00%	-0.40%	0.42%	-0.52%	0.30%	-0.47%	-0.98%	-1.15%
Growth Rates (%)								
Sales	n.a.	n.m.	-19.4%	4.8%	30.3%	19.8%	25.5%	12.9%
EBITDA	n.a.	n.m.	-11.1%	5.1%	43.7%	29.5%	34.9%	15.3%
EBIT	n.a.	n.m.	-6.8%	13.9%	84.8%	30.5%	52.2%	44.9%
Net Income	n.a.	n.m.	-17.9%	101.0%	10.6%	33.4%	55.9%	47.0%

Source: Company Data, KT&Partners' Elaboration

FY20 Financial Results

After a sluggish 1H20, orders bounced back in 2H20 allowing ELES to close the year with €18.1mn of sales, +3.4% compared to FY19 and +7% above our expectations. Looking at the sales breakdown, the Semiconductor business line amounted to €16.7mn, accounting for 92% of the total. Sales from ECU still had a low weight (€1.4mn), registering a slight increase of +1.2% YoY mainly due to the automotive sector slowdown.

Export sales went from 69% in 2019 to 59% in 2020, with the most relevant share coming from EMEA (33%). The year-over-year decrease is a direct consequence of Covid restrictions, and as such must be considered as an extraordinary fact.

EBITDA came in at €3.5mn, +5.1% compared to FY19, exceeding our estimates by +19.8% mainly following higher than expected R&D government grants and a lower incidence of other operating costs. As a result, EBITDA margin¹ was +1.8pp higher than expected, although it remained almost in line compared to 2019 (18.5% vs 18.4%). This result is even more positive considering that the Company has strengthened its organizational structure, whose economic results are not yet fully reflected in the current financials.

Net income stood at €1.7mn (+101% YoY), also benefitting from a €0.5mn tax advantage related to a property revaluation in accordance with Law Decree 104/202. Without considering the tax advantage, net results would have been €1.2mn, closer to our expectations of €1mn.

Finally, at the end of 2020 ELES recorded a net cash position adjusted (including €0.8mn related to insurance policies) of €527k, improving from €1.5mn of net debt adjusted in FY19 thanks to the postponement of investments to 2021 and more efficient management of NWC.

FY20 Income Statement

€ million	FY18	FY19	FY20	YoY %	FY20E	A vs E %
Sales	22.2	17.5	18.1	3.4%	16.9	7.0%
Other Revenues	0.4	0.7	1.0	39.9%	0.7	44.0%
Total Revenues	22.6	18.2	19.1	4.8%	17.6	8.4%
Products and Raw materials	(9.4)	(7.1)	(7.6)	7.7%	(7.0)	8.2%
Gross Profit	13.2	11.2	11.5	2.9%	10.6	8.5%
Gross Margin	58.4%	61.3%	60.2%	-1.1%	60.1%	0.1%
Cost of Services	(4.5)	(3.5)	(3.7)	5.5%	(3.4)	9.2%
Personnel Expenses	(4.4)	(3.8)	(4.0)	4.3%	(3.8)	5.3%
Other Operating Expenses	(0.4)	(0.5)	(0.2)	-45.4%	(0.4)	-43.9%
EBITDA	3.8	3.4	3.5	5.1%	2.9	19.8%
EBITDA margin	16.7%	18.4%	18.5%	0.1%	16.7%	1.8%
D&A and Provisions	(2.3)	(2.0)	(2.0)	-1.0%	(1.4)	39.9%
EBIT	1.5	1.4	1.6	13.9%	1.5	1.3%
EBIT margin	6.5%	7.5%	8.2%	0.7%	8.7%	-0.6%
Financial Income and Expenses	(0.2)	(0.2)	(0.1)	-42.6%	(0.2)	-37.5%
Extraordinary items		(0.2)	0.0	-100.0%	0	
EBT	1.2	1.0	1.5	43.7%	1.4	6.1%
Taxes	(0.5)	(0.2)	0.2	-235.5%	(0.4)	-158.8%
Tax Rate	38.8%	17.0%	-16.1%		29.0%	
Net Income	0.8	0.8	1.7	101.0%	1.0	73.5%
Net margin	3.3%	4.6%	8.8%	4.2%	5.5%	3.3%
Growth %			101.0%		138.0%	
NFP	4.9	2.1	0.3	-84.7%	2.0	-84.4%
NFP adjusted	4.3	1.5	(0.5)	-135.6%		

Source: Company Data

¹ EBITDA margin is calculated on total revenues (including other revenues).

Industry Overview and Outlook

Despite the COVID-19 pandemic, the global semiconductor industry was worth \$430.1bn in 2020, increasing by +6.5% compared to 2019.² The main drivers for the semiconductor industry's growth have been MOS micro-components, logic, sensors and actuator and MOS memory. Unlike the global market, the European semiconductor market was impacted by the pandemic: the market value at the end of 2020 was €32.9bn, down by -7.6% compared to 2019.

In 2020, demand for chips soared as people bought an increasing number of laptops, gaming consoles and TVs during the months when they were forced to stay at home due to the COVID-19 pandemic. This created a supply problem in the automotive sector when production restarted – at a faster-than-expected growth rate – after lockdown, as the supply of chips was not adequate to fully meet demand. This chip shortage, on which the automotive sector relies heavily, caused in the last few months a widespread production stop. For example, at the end of 2020 in Europe, Volkswagen was forced to cut tens of thousands of cars in production. According to estimates, in 1Q21 this shortage may decrease automobile production especially in major car producing countries like China and India³, and it is expected that the situation will return to normality in the second half of the year.

Following the chip shortage in the automotive industry, all countries became aware that reliance on sourcing key technology from abroad was an issue to be solved. The main shared purpose is now to create a system for single geographical areas, in which each country seeks to eliminate this dependence as quickly as possible.

Europe, for example, wants to reduce this “high-risk dependence” from the USA and Asian countries by creating an advanced semiconductor foundry, opening to the possibility of involving industry giants like Samsung.⁴ To date, only 10% of total semiconductor production is in Europe, and the aim is to reach 20% of global production by 2030.

China as well confirms its aim to reduce dependence on US imports, considering the semiconductor market as strategic for national growth. The country confirmed its five-year plan that foresees production of integrated circuits Made in China by 2025, and to reach a position of leadership in the global market by 2030.

The beginning of 2021 has been characterized by an increase in global semiconductor sales of 13.2% year-to-year, for a total of \$40b.⁵ WSTS has foreseen growth in the semiconductor market of 8.4% in 2021, for an overall value of \$469.4bn, mainly thanks to growth in Optoelectronics and Integrated Circuits (particularly memory) segments.

The **Semiconductor test equipment market** (ELES's reference market) is expected to reach \$6bn in 2020 and continue to expand in 2021 and 2022, thanks to an increasing demand for 5G and high-performance computing applications. In relation to the 5G chips market, it is expected to experience strong growth over the period 2020–25, with a CAGR of 87.8%, with high growth particularly in Asia and medium growth in Europe and America⁶.

Moreover, according to Teradyne, 2021 will feature a surge in automotive test demand, and a strong memory test segment.

² European Semiconductor Industry Association (ESIA), 2021

³ Source: <https://www.counterpointresearch.com/semiconductor-component-shortage-hits-automobile-industry/>, January 2021

⁴ Source: <https://europe.autonews.com/suppliers/eu-mulls-deal-asian-producers-european-microchip-foundry>, February 2021

⁵ Source: Semiconductor Industry Association (SIA), March 2021

⁶ Mordor Intelligence, November 2020

Change in Estimates

On November 30th, 2020, ELES released its 2021 guidance, targeting sales at €23.1mn and EBITDA at €4.5mn. NFP is expected to increase to €1.8mn, mainly following higher investments that will be carried out during the period.

Following the FY20 financial results, we decided to leave our top line and margin estimates unchanged for the 2021–23 period. Our FY21 projections are slightly above ELES's guidance, as we foresee sales at €24.1mn. Sales will be driven by:

- 1) 2021 growth in the semiconductor sector (+8.4% YoY), and recovery in the automotive sector, especially in 2H21, after a one-year-slowdown;
- 2) market share increase through further development of RETE's approach for Zero Defect goal;
- 3) RETE's offer expansion to the ECU market for automotive and Aerospace & Defense industry;
- 4) the acquisition of new clients, lowering the weight on total revenues of its first client over the next years.

We project FY21 EBITDA at €5.1mn (ca. +€0.5mn with respect to ELES's target) increasing at a CAGR2020–23 of 35.9%. EBITDA margin⁷ is expected to progressively improve from 20.4% in 2021 to 23.7% by 3.3pp in 2023, mainly thanks to higher production efficiency.

At the bottom line, we revised downward our net income estimates for the length of the plan, due to an increase in D&As following higher scheduled investments (ca. +€0.7mn in FY21 e +€0.25mn in FY22). Net income is expected to grow at a CAGR20–23E of 32%, reaching €3.9mn in 2023.

Finally, we expect FY21 NFP at €1.1mn (-0.8mn lower than company's target mainly due to higher profitability and lower expected CAPEX) and to gradually improve over the 2022–23 period, resulting in a net cash position of €5.5mn by 2023.

Key financial indicators can be summed up as follows:

- FY21E total revenues €24.9, reaching €37.4mn in 2023 with a CAGR20A–23E of 25%;
- FY21E EBITDA at €5.1mn, growing at a CAGR20A–23E of 36%, amounting to €8.9mn in 2023;
- FY21E net income to be at €1.9mn, and to reach €3.9mn in 2023, with a CAGR20A–23E of 32%;
- FY21E net debt of €1.1mn, reaching a net cash position of €5.5mn in FY23E.

Change in Estimates											
€ mn	2020	2021E	2021E	Change	2022E	2022E	Change	2023E	2023E	Change	CAGR
	Actual	Old	New		Old	New		Old	New		2020-23
Total Revenues	19.1	24.9	24.9	0.0%	29.8	29.8	0.0%	37.4	37.4	0.0%	25.1%
YoY Change (%)	4.8%	30.3%	30.3%		19.8%	19.8%		25.5%	25.5%		
EBITDA	3.5	5.1	5.1	0.0%	6.6	6.6	0.0%	8.9	8.9	0.0%	35.9%
YoY Change (%)	5.1%	43.7%	43.7%		29.5%	29.5%		34.9%	34.9%		
EBITDA Margin	18.5%	20.4%	20.4%		22.0%	22.0%		23.7%	23.7%		
EBIT	1.6	3.2	2.9	-11.2%	4.4	3.8	-14.4%	6.4	5.7	-10.7%	54.2%
YoY Change (%)	n.m.	108.0%	84.8%		35.4%	30.5%		45.9%	52.2%		
Net Income	1.7	2.2	1.9	-14.5%	3.0	2.5	-16.9%	4.4	3.9	-12.3%	32.0%
YoY Change (%)	n.m.	29.3%	10.6%		37.3%	33.4%		47.8%	55.9%		
NFP	(0.5)	1.4	1.1	(0.3)	(1.5)	(1.0)	0.5	(5.9)	(5.5)	0.4	

Source: Company Data, KT&Partners' Elaboration

⁷ EBITDA margin is calculated on total revenues (including other revenues).

Valuation

Following ELES's future financials projections, we have carried out our valuation using the multiples and DCF methods and considering the warrant dilution effect. Our fair value is the result of:

- **EV/EBITDA multiple:** with a 15% liquidity discount, which returns a value of €7.63ps;
- **DCF analysis** based on WACC of 10.7% and 2% perpetual growth, which returns a value of €4.80ps.

The average of the two methods yields a fair value of €6.21ps.

When valuing the company, we also take into consideration:

- **Warrant dilution effect:** As of November 30th, 2020, there are 10.8mn warrants outstanding. As the warrants are in the money (strike price €2.00), we carried out a simulation of warrant that will be exercisable by the market (based on 46.1% free float), for an estimated capital increase of ca. €5mn (2.5mn new shares). The diluted fair value would be equal to €5.45ps (based on 13.8mn shares).

By summing up the result of the valuation methods and the warrant effects, we project a fair value of €5.45ps.

Valuation Recap

	Value per share €
Valuation model avg	6.21
Post Warrant Dilution	(0.76)
Fair Value	5.45

Source: FactSet, KT&Partners' Elaboration

Market Multiples Valuation

Following our comps analysis, we evaluate the company by using the 2021–22 EV/EBITDA market multiples of the peer sample. Our valuation also includes a 15% liquidity/size discount and takes into account our estimates of ELES's EBITDA for 2021 and 2022.

We did not consider the P/E market multiples, as ELES' 2021–22 net income is expected to be penalized by strong investments that the company will carry out in the next years to preserve its technological leadership (ca. €6.5mn of investments expected between 2021 and 2022).

Peer Comparison – Market Multiples 2020–22

Company Name	Exchange	Market Cap	EV/SALES 2020	EV/SALES 2021	EV/SALES 2022	EV/EBITDA 2020	EV/EBITDA 2021	EV/EBITDA 2022	EV/EBIT 2020	EV/EBIT 2021	EV/EBIT 2022	P/E 2020	P/E 2021	P/E 2022
Advantest Corp.	Tokyo	16,542	n.a.	5.7x	5.3x	n.a.	19.6x	17.1x	n.a.	23.3x	20.2x	n.a.	30.9x	27.1x
Aehr Test Systems	NASDAQ	47	n.a.	2.6x	n.a.	n.a.	n.a.	n.a.	n.a.	n.m	n.a.	n.a.	n.m	n.a.
Chroma Ate Inc.	Taiwan	2,455	5.4x	4.6x	4.1x	25.8x	18.2x	15.7x	29.9x	20.8x	17.2x	33.5x	19.1x	18.5x
Cohu, Inc.	NASDAQ	2,017	3.9x	2.9x	2.8x	31.9x	12.7x	11.7x	n.m	13.7x	12.6x	n.m	15.7x	14.4x
Teradyne, Inc.	NASDAQ	18,641	6.5x	6.4x	6.0x	19.9x	19.1x	17.4x	22.3x	20.9x	19.2x	29.1x	27.0x	24.5x
Average peer group		7,940	5.3x	4.5x	4.6x	25.9x	17.4x	15.5x	26.1x	19.7x	17.3x	31.3x	23.2x	21.1x
Median peer group		2,455	5.4x	4.6x	4.7x	25.8x	18.6x	16.4x	26.1x	20.9x	18.2x	31.3x	23.0x	21.5x
ELES S.p.A.	Milan	34	2.4x	1.8x	1.5x	12.9x	9.0x	6.9x	29.2x	15.8x	12.1x	27.3x	24.7x	18.5x

Source: FactSet, KT&Partners' Elaboration

EV/EBITDA Multiple Valuation

Multiple Valuation (€mn)	2021E	2022E
EV/EBITDA Comps	18.6x	16.4x
ELES S.p.A. EBITDA	5.07	6.56
Enterprise value	94.4	107.8
Eles S.p.A. FY20 NFP	-0.5	-0.5
Equity Value	94.9	108.3
Average Equity Value	101.6	
Liquidity/Size Discount	15%	
Equity Value Post-Discount	86.4	
Number of shares (thousand)	11.3	
Value per Share €	7.63	

Source: FactSet, KT&Partners' Elaboration

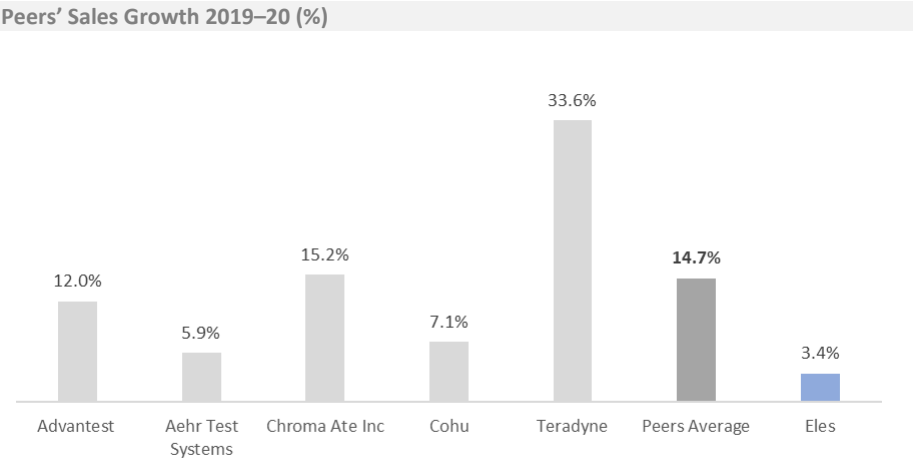
From our multiple analysis we derive a value of €7.63ps, up from €4.11ps in our last research, representing an increase of 85.6%. This was mainly the result of peers' multiples expansion following a strong increase in stock performance since our latest update of October 22th, 2020 (+85% on average).

Peers' Price Change (%)

Company Name	Price change % 22.10.20	Price change % 6Month	Price change % 1Year	Price change % YTD
Advantest Corp.	95.3%	95.4%	133.0%	37.8%
Aehr Test Systems	82.4%	70.6%	68.3%	-3.6%
Chroma Ate Inc.	33.6%	18.6%	48.0%	11.9%
Cohu, Inc.	165.2%	143.2%	231.5%	27.2%
Teradyne, Inc.	46.3%	50.5%	113.1%	8.7%
Average	84.6%	75.7%	118.8%	16.4%
Median	82.4%	70.6%	113.1%	11.9%
ELES Semiconductor Equipment SpA	65.4%	51.9%	30.9%	20.4%

Source: FactSet, KT&Partners' Elaboration

It is worth noticing that, in addition to sound stock performances and despite the COVID-19 pandemic, ELES's comps closed FY20 with an average annual growth of sales of +14.7%.



Source: FactSet, KT&Partners' Elaboration
Note: Advantest sales comparison is on the first nine months of FY19–20.

DCF Valuation

We have also performed our valuation using a four-year DCF model, based on 11.2% cost of equity, 3% cost of debt and a target capital structure with 8% debt (Damodaran for the semiconductor equipment sector). The cost of equity is a function of the risk-free rate of 0.7% (Italian 10y BTP), 5.39% equity risk premium (Damodaran for a mature market). We, therefore, obtained 10.5% WACC.

We discounted 2021E–24E annual cash flows and considered a terminal growth rate of 2.0%; then we carried out a sensitivity analysis on the terminal growth rate (+/- 0.25%) and on WACC (+/- 0.25%).

DCF Valuation

€ million	2021E	2022E	2023E	2024E
EBIT	2.9	3.8	5.7	8.3
Taxes	(0.8)	(1.1)	(1.7)	(2.4)
D&A	2.2	2.8	3.1	1.9
Change in Net Working Capital	(2.1)	(1.1)	(1.2)	(1.1)
Change in Funds	0.4	0.4	0.5	0.5
Net Operating Cash Flow	2.5	4.8	6.5	7.3
Capex	(4.0)	(2.5)	(1.8)	(1.8)
FCFO	(1.5)	2.3	4.7	5.5
g	2.0%			
Wacc	10.5%			
FCFO (discounted)	(1.4)	1.9	3.6	3.8
Discounted Cumulated FCFO	8.0			
TV	66.4			
TV (discounted)	45.8			
Enterprise Value	53.7			
FY20 NFP	(0.5)			
Equity Value	54.3			
Current number of shares (mn)	11.3			
Value per share (€)	4.80			

Source: Company Data, KT&Partners' Elaboration

DCF Sensitivity Analysis

€ million	WACC					
Terminal growth rate		11.0%	10.8%	10.5%	10.3%	10.0%
	1.5%	48.4	49.9	51.5	53.2	54.9
	1.8%	49.6	51.2	52.8	54.6	56.4
	2.0%	50.9	52.5	54.3	56.1	58.1
	2.3%	52.2	53.9	55.8	57.7	59.8
	2.5%	53.6	55.4	57.4	59.4	61.6

Source: Company Data, KT&Partners' Elaboration

Appendix

Peer Comparison

In order to define ELES's peer sample, we carried out an in-depth analysis of listed companies active in the ATE, Burn-In and System Level Test markets. Given the increasing market requests for not only higher performance but also higher reliability, ATE market leaders (i.e. Advantest and Teradyne) have recently moved towards the Burn-In/System Level Test market through M&A activities.

For peers analysis, we built a sample of five companies which includes:

- **Advantest Corp.:** listed on the Tokyo stock exchange with a market capitalization of €16.5bn, Advantest Corp. is the leading producer of ATE for the semiconductor industry and a manufacturer of mechatronic products used in the design and production of electronic instruments and systems. In FY20, the company reached revenues of €2.3bn. It operates through the:
 - Semiconductor and Components Test Systems segment, which offers test systems for the semiconductor and electronic component industries (71% of FY20 total sales) with a particular focus on DRAM and more recently on SoC;
 - Mechatronic segment which provides the semiconductor devices handling mechatronic applied products such as testers, handlers, device interfaces and nanotechnology products (13% of FY20 total sales);
 - Others segment which is involved in the customer solution, support and equipment leasing services;
- **Aehr Test Systems:** listed on Nasdaq with a market capitalization of €47mn, Aehr Test Systems engages in the design, manufacture, and marketing of test and burn-in products to the semiconductor manufacturing industry. Its products include wafer contact test systems (89% of FY20 total sales), test during burn-in systems (11% of FY20 total sales), test fixtures and dye carriers. In FY20, the company reached revenues of €20mn;
- **Chroma ATE Inc.:** listed on the Taiwan stock exchange with a market capitalization of €2.5bn, Chroma ATE Inc. engages in the design and manufacture of precision electronic measuring instruments. Its products include a power electronics test, electric vehicle test, battery test and automation, passive component test, electrical safety test, video and color test, flat panel display test, lighting and driver test, optical devices test, photovoltaic and inverter test, automated optical inspection, semiconductor and integrated circuit test, manufacturing execution systems, turnkey test and automation solutions. In FY20, the company reached revenue of €0.5bn;
- **Cohu Inc.:** listed on Nasdaq with a market capitalization of €2bn, Cohu Inc. engages in the provision of back-end semiconductor equipment and services. It operates through the Semiconductor Test and Inspection (92% of FY20 total revenue) and Printed Circuit Board Test segments. In FY20, the company reached revenues of €0.5bn;
- **Teradyne Inc.:** listed on Nasdaq with a market capitalization of €18.6bn, Teradyne Inc. supplies automation equipment for test and industrial applications. In FY20, the company reached revenues of €2.7bn. It operates through the:
 - Semiconductor Test segment (72% of FY20 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 (13% of FY20 total revenue) which comprises the defense and aerospace, storage test, and production board test business unit;
- Wireless Test segment (6% of FY20 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 (9% of FY20 total revenue) which supplies collaborative robots that work side by side with production workers.

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IN THIS STUDY DCF AND MULTIPLE VALUATION MODELS HAVE BEEN USED. RECOMMENDATIONS FOLLOW THE FOLLOWING RULES:

- ADD – FOR A FAIR VALUE > 15% ON CURRENT PRICE
- HOLD – FOR A FAIR VALUE <15% AND >-15% ON CURRENT PRICE
- REDUCE – FOR A FAIR VALUE < -15% ON CURRENT PRICE



Via della Posta, 10 – Piazza Affari, 20123 Milano – Italy
Tel: +39.02.83424007 Fax: +39.02.83424011
segreteria@ktepartners.com