

May 26, 2020

Semiconductor Testing

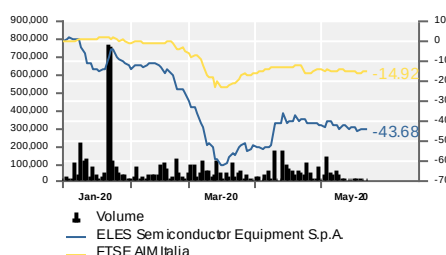
Company Update

Fair Value: €5.02
(Prev. €5.95)

Kevin TEMPESTINI
+39.02.83424007
ktempestini@ktepartners.com

Giancarlo DI VONA
+39.02.83424008
gdivona@ktepartners.com

Federica FIORENZA
+39.02.83424008
ffiorenza@ktepartners.com

Relative Performance Chart YTD**Market Data:**

Current Price (€)	2.95
Fair Value (€)	5.02
Market Cap (€mn)	32.91
52 Wk High (€)	6.49
52 Wk Low (€)	1.88
Free Float (%)	45.4
Avg. Daily Trading 90d	50397
Price Change 1w (%)	0.34
Price Change 1m (%)	-8.67
Price Change YTD (%)	-43.49
EV/EBITDA 2020E	8.30
EV/EBITDA 2021E	5.25
P/E 2020E	25.62
P/E 2021E	12.42

COVID-19: Testing ELES' Business Resilience

FY19 Results. In a challenging year for the semiconductors sector (-12%YoY according to the WSTS), ELES closed FY19 with €17.5mn of sales (-21%YoY and broadly in line with our expectations). Sales of semiconductors decreased to €16mn, experiencing a drop of -11%YoY, lower compared to the slowdown recorded by the Burn-In Test (-64%YoY) and the Automated Test Equipment (ATE) (-17%YoY) sectors. A higher contraction was recorded by the ECU and Industry&Defense business (-60%YoY) due to a weakening European automotive sector and lower investments in the defense sector in Italy and Europe. Gross margin improved by 2.9% to 61.3% (+3.6pp greater than expected) as a result of the higher incidence of the Test Application business line which presents higher margin. EBITDA came in at €3.4mn (-11.1%YoY but +10.8% than expected) with an EBITDA margin of 18.4% (+1.7ppYoY and +1.2pp with respect to our estimates). Adjusting for listing costs, net income amounted to €1mn (+34%YoY and +119% above our estimates). NFP position decreased from €4.9mn in FY18 to €2.1mn also thanks to the IPO cash-in.

Snapshot of the market at the time of COVID-19. Semiconductor testing markets are strongly influenced by the mega trends in the semiconductors market and its related final sectors. After a downturn in 2019, the global semiconductor market posted a solid start, increasing by 6.9%YoY in 1Q20. Meanwhile, the coronavirus spread globally, causing some turbulence in the supply chain and impacting semiconductor demand. Gartner reduced 2020 semiconductors market growth forecast from +12.5% to -0.9%, with the nonmemory segment expected to decline by -6.1%, while the memory segment is forecast to grow by +13.9%. End-markets like automotive and consumer electronics are expected to be among the most impacted sectors, whereas data center and communications infrastructure sectors are expected to show greater resilience following increasing investment to support remote working and online access. Most companies have revised their guidance: STMicroelectronics - one of the main semiconductor players and ELES' top client - has reduced its CAPEX expectations for 2020 by ca. 20%/30% due to lower demand and the rescheduling of some strategic initiatives.

Impact of COVID-19 on ELES' business. During the lockdown, ELES kept running its operations putting in place all measures to guarantee the health and safety of its employees. Furthermore, ELES strengthened its structure by hiring a Chief Technology Officer and a manager to penetrate the Chinese market. In order to value the possible impacts of COVID-19 on ELES' results, we have developed three possible scenarios based on two variables: i) revenues lost during 2020; and ii) the recovery path in the following year. We forecast the negative impact of COVID-19, also taking into account the potential slowdown in the range of 13%-33% in capital spending by ELES' clients with an impact on ELES' topline mostly in the first half of 2020.

- Worst-case scenario: FY20 revenues at €21.1mn reaching €33.2mn in FY22
- Base-case scenario: FY20 revenues at €22.7mn reaching €37.3mn in FY22
- Best-case scenario: FY20 revenues at €23.7mn reaching €39.2mn in FY22

Valuation. Although there are many unknowns in the market, we believe the company is well positioned, both domestically and abroad, as a reference partner for achieving the goal of zero defects in all semiconductor's devices thanks to its innovative RETE solution. Factoring in estimates of the base-case scenario, our valuation - based on both the DCF and multiples method and considering the warrant dilution effect - returns a fair value of €5.02ps (+70% upside on the current price and -16% on our latest update). We believe the stock does not seem to be trading on fundamentals but rather on momentum. We also carried out a what-if analysis to assess price sensitivity to changes in the FY20 revenues reduction and in the recovery rate of the latter during 2021. The price range result is €4.48-5.28.

€ Million	Total Revenues	EBITDA	EBITDA Margin	EBIT	Net Profit	Net Margin
2018A	22.6	3.8	16.7%	1.5	0.8	3.3%
2019A	18.2	3.4	18.4%	1.4	0.8	4.6%
2020E	22.7	4.2	18.5%	2.0	1.3	5.6%
2021E	30.1	6.7	22.2%	4.0	2.7	8.8%
2022E	37.3	8.8	23.7%	6.3	4.3	11.6%
2023E	42.2	10.5	24.8%	8.6	5.9	13.9%

Source: Company data, KT&Partners' estimates

KT&Partners Srl
Via della Posta, 10 - Piazza Affari, 20123 Milano - Italy
Tel: +39.02.83424007 Fax: +39.02.83424011
segreteria@ktepartners.com

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

ELES - Key Figures

Current price (€)	Fair Value (€)		Sector			Free Float (%)	
2.95	5.02		Semiconductor Testing			45%	
Per Share Data	2017A	2018A	2019A	2020E	2021E	2022E	2023E
Total shares outstanding (mn)	n.m.	n.m.	11.16	11.16	11.16	11.16	11.16
EPS	n.m.	n.m.	0.08	0.12	0.24	0.39	0.53
Dividend per share (ord)	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.
Profit and Loss (EUR million)							
Revenues	14.4	22.6	18.2	22.7	30.1	37.3	42.2
EBITDA	2.8	3.8	3.4	4.2	6.7	8.8	10.5
EBIT	0.6	1.5	1.4	2.0	4.0	6.3	8.6
EBT	0.4	1.2	1.0	1.8	3.8	6.2	8.4
Taxes	(0.2)	(0.5)	(0.2)	(0.6)	(1.1)	(1.9)	(2.5)
Tax rate	47%	39%	17%	30%	30%	30%	30%
Net Income	0.2	0.8	0.8	1.3	2.7	4.3	5.9
Net Income attributable to the Group	0.2	0.8	0.8	1.3	2.7	4.3	5.9
Balance Sheet (EUR million)							
Total fixed assets	9.6	8.3	8.8	10.5	10.6	10.3	10.2
Net Working Capital (NWC)	4.0	4.4	6.6	7.5	8.2	9.0	9.6
Provisions	(1.3)	(1.3)	(0.9)	(1.2)	(1.6)	(2.1)	(2.6)
Total Net capital employed	12.4	11.4	14.6	16.8	17.2	17.3	17.2
Net financial position/(Cash)	6.6	4.9	2.1	3.0	0.7	(3.5)	(9.5)
Group Shareholder's Equity	5.8	6.5	12.5	13.8	16.4	20.8	26.6
Minorities	-	-	-	-	-	-	-
Total Shareholder's Equity	5.8	6.5	12.5	13.8	16.4	20.8	26.6
Cash Flow (EUR million)							
Net operating cash flow	-	3.3	3.1	3.6	5.5	6.9	7.9
Change in NWC	-	(0.4)	(2.7)	(0.9)	(0.7)	(0.8)	(0.6)
Capital expenditure	-	(0.7)	(2.4)	(3.9)	(2.8)	(2.3)	(1.8)
Other cash items/Uses of funds	-	0.3	0.1	0.3	0.4	0.5	0.5
Free cash flow	-	1.9	(2.0)	(0.8)	2.4	4.3	6.1
Enterprise Value (EUR million)							
Market Cap	n.a.	n.a.	51.8	32.9	32.9	32.9	32.9
Minorities	-	-	-	-	-	-	-
Net financial position/(Cash)	6.6	4.9	2.1	3.0	0.7	(3.5)	(9.5)
Enterprise value	n.a.	n.a.	54	36	34	29	23
Ratios							
EBITDA margin	19.4%	16.7%	18.4%	18.5%	22.2%	23.7%	24.8%
EBIT margin	4.2%	6.5%	7.5%	8.8%	13.2%	17.0%	20.3%
Gearing - Debt/equity	114.9%	74.5%	16.7%	21.9%	4.4%	-16.9%	-35.5%
Interest cover on EBIT	41.6%	16.0%	13.4%	8.4%	4.2%	2.6%	2.0%
NFP/EBITDA	2.37x	1.29x	0.62x	0.72x	0.11x	-0.40x	-0.90x
ROCE	4.9%	12.8%	9.4%	11.9%	23.0%	36.8%	49.9%
ROE	3.2%	11.5%	6.7%	9.3%	16.1%	20.8%	22.1%
EV/Sales	2.4x	1.5x	1.9x	1.5x	1.2x	0.9x	0.8x
EV/EBITDA	12.5x	9.3x	10.4x	8.3x	5.2x	4.0x	3.3x
P/E	177.9x	43.7x	39.3x	25.6x	12.4x	7.6x	5.6x
Free cash flow yield	0.00%	0.09%	-0.10%	-0.04%	0.11%	0.21%	0.29%
Growth Rates (%)							
Sales	n.a.	n.m.	-19.4%	24.9%	32.2%	24.2%	12.9%
EBITDA	n.a.	n.m.	-11.1%	25.6%	58.1%	32.4%	18.5%
EBIT	n.a.	n.m.	-6.8%	46.6%	97.4%	60.5%	35.0%
Net Income	n.a.	n.m.	-17.9%	53.3%	106.4%	63.2%	35.9%

Source: Company data, KT&Partners' elaborations

FY19 Financial Results

Company Profile

ELES S.p.A. (ELES) is an Italian SME, active since 1988 in the reliability testing equipment market for semiconductors. Thanks to its 30 years of experience and a rich IP library, ELES has developed an innovative semiconductor testing solution (RETE) - based on the Test-During-Burn-In approach - which allows for testing both the reliability and performance of semiconductor devices, with important advantages in terms of time and cost savings with respect to traditional tests (Burn-In test + ATE test).

Substantially in line with our expectations, FY19 sales stood at €17.5mn, down by -21%YoY on the back of the industry slowdown (according to WSTS the semiconductors industry experienced a downturn of -12%YoY) and the negative trend in order intake registered by the company.

Sales of the semiconductors business line reached €16.1mn, experiencing a decrease of -11%YoY, less than the slowdown recorded by the Burn-In Test (-64%YoY) and the ATE (-17%YoY) sectors. This was possible thanks to ELES' innovative TDBI offer and RETE approach. Sales of the ECU and Industry&Defense business line recorded a drop of over 60%, going from €4mn to €1.4mn. This was mainly the result of the contraction in the European automotive sector, along with lower investment in the defense sector in Italy and Europe. Export sales accounted for 69% of the total, unchanged with respect to the previous year.

FY19 gross margin improved by 2.9% to 61.3% (+3.6pp higher than expected) as a result of the higher incidence of the Test Application business line which presents higher margin. EBITDA came in at €3.4mn (-11.1%YoY but +10.8% greater than expected), resulting in an EBITDA margin of 18.4%, +1.7ppYoY and +1.2pp with respect to our estimates. EBITDA margin increase is even more positive when considering that during 2019 the company hired four new executives (for a total cost of €431k) in order to strengthen its organizational structure.

Net income reached €0.8mn, +11.3%YoY and +118.9% above our estimates. Adjusting for listing costs of €0.2mn, the bottom line amounted to €1mn with an increase of 34% compared to the previous year.

Finally, net financial position decreased from €4.9mn in FY18 to €2.1mn (+52.4% with respect to our expectations) also thanks to IPO cash-in (€4.8mn net of listing costs).

FY19 Financial Results

€ million	FY18	FY19	YoY %	FY19E	A vs E %
Sales Revenues	22,177	17,517	-21.0%	17,317	1.2%
Other Revenues	425	697	64.0%	294	136.8%
Total Revenues	22,602	18,214	-19.4%	17,611	3.4%
Products and Raw materials	(9,410)	(7,054)	-25.0%	(7,446)	-5.3%
Gross Profit	13,192	11,160	-15.4%	10,165	9.8%
Gross Margin	58.4%	61.3%	2.9%	57.7%	3.6%
Cost of Services	(4,530)	(3,503)	-22.7%	(3,325)	5.4%
Personnel Expenses	(4,445)	(3,847)	-13.5%	(3,463)	11.1%
Other Operating Expenses	(439)	(452)	3.0%	(346)	30.5%
EBITDA	3,777	3,358	-11.1%	3,030	10.8%
EBITDA margin	16.7%	18.4%	1.7%	17.2%	1.2%
D&A and Provisions	(2,312)	(1,992)	-13.8%	(2,194)	-9.2%
EBIT	1,465	1,366	-6.8%	836	63.3%
EBIT margin	6.5%	7.5%	1.0%	4.7%	2.8%
Financial Income and Expenses	(235)	(183)	-22.1%	(116)	57.2%
Extraordinary items		(173)	n.m.	(173)	0.0%
EBT	1,230	1,010	-17.9%	547	84.7%
Taxes	(477)	(172)	-63.9%	(164)	4.8%
Tax Rate	38.8%	17.0%		30.0%	
Net Income	753	838	11.3%	383	118.9%
Net margin	3.3%	4.6%	1.3%	2.2%	2.4%
NFP	4,873	2,088	-57.2%	1,370	52.4%

Source: Company Data

Macro Trend Outlook

Semiconductor testing markets (Burn-In and ATE markets) are strongly influenced by the mega trends in the semiconductors market and its related final sectors (Industrial, Automotive, Consumer Electronics, IoT, AI & Innovative Tech).

After a downturn in 2019, the global semiconductor market got off to a solid start in 2020. In 1Q20, the industry posted a positive year-to-year sales growth of 6.9% for the first time in more than a year. Meanwhile, the coronavirus spread globally, causing some turbulence in the supply chain and semiconductor demand.

As of April 9th, 2020, Gartner forecasts the worldwide semiconductor revenue to decline by 0.9% in 2020, down from the previous quarter's forecast of +12.5% growth. The nonmemory segment is expected to decline by -6.1% due to significant reduction in smartphone, automobile and consumer electronics production. On the other hand, data center and communications infrastructure sectors are expected to show greater resilience following increasing investment to support remote working and online access. The memory segment is forecast to grow by 13.9%.

According to IBS, the most likely scenario is now a 0.7% decline in the semiconductor market in 2020 vs 2019, as the potential recovery in demand in 2H20 will not be large enough to compensate for the decline in 1H20.

Looking at end-markets, VSLI Research expects worldwide electronics sales to fall nearly 5% in 2020, down from its previous forecast of +4%. The downgrade is a result of the COVID-19 pandemic which is having an adverse impact on the electronics supply chain and end-demand.

Electronics Production Outlook

Forecast Changes for 2020 (y-o-y growth)

	Dec-19	Mar-20	Apr-20
Personal Tools	4.2%	1.5%	-6.7%
IT Infrastructure	8.4%	5.6%	-3.0%
Automotive	8.1%	5.4%	-3.2%
Industrial	9.5%	6.8%	-1.9%
Total	6.3%	3.6%	-4.8%

Source: VSLI Research

After a positive start in 1Q20, STMicroelectronics - one of the main semiconductor players and ELES' top client - anticipates revenue in the range of \$8.8bn-9.5bn vs 9.6bn in FY19. The company has also reduced its CAPEX expectations for 2020 by ca. 20%-30%, following the expected lower level of revenues and the rescheduling of some strategic initiatives. Q2 is expected to be the most challenging quarter, due to the declining demand environment, especially in the automotive sector, as well as operational and logistics challenges following the adoption of shutdown measures. STMicroelectronics anticipates the second half of 2020 to be better than the first half as a result of the removal of lockdown and supply chain constraints.

Estimates Review and Potential COVID-19 Impact

The outbreak of COVID-19 had a slowdown effect on the global economy due to the necessary lockdown measures introduced by governments. Since the beginning of April, the COVID-19 infection curve has started a downward trend in Italy and in other countries. Towards the end of April, Italy gradually eased the lockdown measures, approaching the so-called “Phase 2”.

In order to assess the possible effects of COVID-19 over ELES's results, we have built a what-if analysis based on two variables:

- 1) Impact of COVID-19 on 2020 revenues;
- 2) Recovery path in FY21.

It is worth pointing out that during the lockdown period, ELES kept running its operations putting in place all measures to guarantee the health and safety of its employees. Furthermore, at the beginning of May ELES expanded its Aerospace&Defense client portfolio. We then forecast the negative impact of COVID-19, mainly taking into account the potential slowdown/postponement in capital spending in the range of 13%-33% of ELES' clients with an impact on ELES' topline mostly in the first half of 2020.

Taking into consideration the economic effects of COVID-19, we built the following scenario:

1. **Worst-Case Scenario.** Our worst-case scenario assumes: i) ELES' clients will lower their capital spending on average by 33%, hitting ELES mainly in 1H2020 and resulting in a -17% contraction in ELES' topline in 2020; and ii) no recovery of the lost revenues in the following years due to a prolonged general economic slowdown. This will lead total revenue to grow at +22.2% CAGR2019-22 or 7.5% lower than previously expected in a non-COVID-19 world. We still consider reasonable €33.2mn revenues in FY2022;
2. **Base-Case Scenario.** In our base-case scenario, we anticipate: i) an average reduction in capital spending by ELES' client of 20%, hitting ELES mainly in 1H2020 and resulting in a 10% drop in ELES' 2020 annual sales; and ii) a 50% catch-up effect in FY21 of the sales lost during 2020, thanks to a recovery in the demand for semiconductors fueled by technological progress. We forecast total revenues to increase at a +27.0% CAGR2019-22 (vs a +29.7% CAGR2019-22 from our previous research), reaching €37.3mn in FY22;
3. **Best-Case Scenario.** In the most optimistic scenario, we assume: i) ELES' clients will lower their capital spending on average by 13%. This will result in a 6% drop in ELES' 2020 revenue; and ii) a 100% recovery rate in FY21 of the sales lost during 2020, led by a higher demand for semiconductors along with stronger commercial activities in China, leveraging on a strengthened organization and on the commercial partnership signed with Xi'An XCET. Total revenues are expected to grow at 29.1% CAGR2019-22, reaching €39.2mn in FY22.

Worst-Case Scenario

€ thousand	2019A	2020E	2020E	Change	2021E	2021E	Change	2022E	2022E	Change	CAGR	CAGR
		Old	New Post-COVID	Post-COVID	Old	New Post-COVID	Post-COVID	Old	New Post-COVID	Post-COVID	2019-'22 Old	2019-'22 Post-COVID
Total Revenues	18,214	25,271	21,101	-16.5%	32,006	26,725	-16.5%	39,756	33,196	-16.5%	29.7%	22.2%
YoY Change (%)	-19.4%	38.7%	15.9%		26.6%	26.6%		24.2%	24.2%			
EBITDA	3,358	4,935	3,914	-20.7%	7,255	5,927	-18.3%	9,598	7,851	-18.2%	41.9%	32.7%
EBITDA Margin (%)	18.4%	19.5%	18.5%		22.7%	22.2%		24.1%	23.7%			
EBIT	1,366	2,275	1,698	-25.4%	4,904	3,213	-34.5%	7,535	5,368	-28.8%	76.7%	57.8%
EBIT Margin (%)	7.5%	9.0%	8.0%		15.3%	12.0%		19.0%	16.2%			
Net Income	838	1,511	1,071	-29.1%	3,351	2,131	-36.4%	5,193	3,640	-29.9%	83.7%	63.2%
YoY Change (%)	11.3%	80.3%	27.8%		121.8%	99.0%		55.0%	70.8%			
Net Debt (Cash)	2,088	666	2,812		(2,220)	749		(6,857)	(2,831)			

Source: Company data, KT&Partners' elaboration

Base-Case Scenario

€ thousand	2019A	2020E	2020E	Change	2021E	2021E	Change	2022E	2022E	Change	CAGR	CAGR
		Old	New Post-COVID	Post-COVID	Old	New Post-COVID	Post-COVID	Old	New Post-COVID	Post-COVID	2019-'22 Old	2019-'22 Post-COVID
Total Revenues	18,214	25,271	22,744	-10.0%	32,006	30,069	-6.1%	39,756	37,335	-6.1%	29.7%	27.0%
YoY Change (%)	-19.4%	38.7%	24.9%		26.6%	32.2%		24.2%	24.2%			
EBITDA	3,358	4,935	4,218	-14.5%	7,255	6,669	-8.1%	9,598	8,830	-8.0%	41.9%	38.0%
EBITDA Margin (%)	18.4%	19.5%	18.5%		22.7%	22.2%		24.1%	23.7%			
EBIT	1,366	2,275	2,003	-12.0%	4,904	3,955	-19.4%	7,535	6,347	-15.8%	76.7%	66.9%
EBIT Margin (%)	7.5%	9.0%	8.8%		15.3%	13.2%		19.0%	17.0%			
Net Income	838	1,511	1,284	-15.0%	3,351	2,651	-20.9%	5,193	4,325	-16.7%	83.7%	72.8%
YoY Change (%)	11.3%	80.3%	53.3%		121.8%	106.4%		55.0%	63.2%			
Net Debt (Cash)	2,088	666	3,025		(2,220)	721		(6,857)	(3,510)			

Source: Company data, KT&Partners' elaboration

Best-Case Scenario

€ thousand	2019A	2020E	2020E	Change	2021E	2021E	Change	2022E	2022E	Change	CAGR	CAGR
		Old	New Post-COVID	Post-COVID	Old	New Post-COVID	Post-COVID	Old	New Post-COVID	Post-COVID	2019-'22 Old	2019-'22 Post-COVID
Total Revenues	18,214	25,271	23,692	-6.2%	32,006	31,585	-1.3%	39,756	39,215	-1.4%	29.7%	29.1%
YoY Change (%)	-19.4%	38.7%	30.1%		26.6%	33.3%		24.2%	24.2%			
EBITDA	3,358	4,935	4,394	-11.0%	7,255	7,005	-3.5%	9,598	9,275	-3.4%	41.9%	40.3%
EBITDA Margin (%)	18.4%	19.5%	18.5%		22.7%	22.2%		24.1%	23.7%			
EBIT	1,366	2,275	2,179	-4.2%	4,904	4,291	-12.5%	7,535	6,791	-9.9%	76.7%	70.7%
EBIT Margin (%)	7.5%	9.0%	9.2%		15.3%	13.6%		19.0%	17.3%			
Net Income	838	1,511	1,407	-6.9%	3,351	2,886	-13.9%	5,193	4,636	-10.7%	83.7%	76.9%
YoY Change (%)	11.3%	80.3%	68.0%		121.8%	105.0%		55.0%	60.7%			
Net Debt (Cash)	2,088	666	3,148		(2,220)	679		(6,857)	(3,848)			

Source: Company data, KT&Partners' elaboration

Valuation

In valuing ELES we take into consideration estimates of the base-case scenario and 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:

- **Average of valuation methods:** fair value of €5.71ps;
- **Warrant dilution effect:** we carried out a simulation considering the exercise of the warrant distributed to the market. We considered the 5.1mn of warrant (coming from both the first release at the IPO and the second release in January 2020) that will be exercisable by the market (based on 45% free float), for an estimated capital increase of ca. €5.1mn (2.5mn of new shares). The diluted fair value would be equal to €5.02ps (based on 13.7mn shares).

By summing up the result of the valuation methods and the warrant effects we project a fair value of €5.02ps.

Valuation Recap

	Value per share €
Valuation model avg	5.71
Post Warrant Dilution	5.02
Fair Value	5.02

Source: KT&Partners' elaborations

We also carried out a what-if analysis to assess share value sensitivity to changes in the FY20 revenues reduction and in the recovery rate in 2021 of the revenues lost in 2020. According to the sensitivity, the diluted share price will range from €4.48 per share in the worst-case scenario to €5.28 per share in the best-case scenario.

Sensitivity Analysis

		Recovery Rate				
		0%	25%	50%	75%	100%
Revenue Reduction in FY20	-17%	4.48	4.62	4.77	4.91	5.06
	-13%	4.66	4.78	4.90	5.01	5.13
	-10%	4.85	4.94	5.02	5.11	5.20
	-8%	4.99	5.06	5.12	5.19	5.25
	-6%	5.06	5.12	5.17	5.23	5.28

Source: KT&Partners' elaborations

Market Multiple Valuation

Following our peer analysis, we evaluate ELES by using the 2020-21 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 2020 and 2021.

We did not take into account the P/E market multiples since the investment made in the previous years by ELES strongly penalizes the net income of the following years.

Peers Comparison - Market Multiples 2019-21

Company Name	Exchange	Market Cap	EV/SALES 2019	EV/SALES 2020	EV/SALES 2021	EV/EBITDA 2019	EV/EBITDA 2020	EV/EBITDA 2021	EV/EBIT 2019	EV/EBIT 2020	EV/EBIT 2021	P/E 2019	P/E 2020	P/E 2021
Advantest Corp.	Tokyo	8,968	3.5x	3.3x	2.9x	13.8x	14.6x	11.0x	16.3x	15.6x	12.2x	20.3x	21.2x	16.8x
Aehr Test Systems	NASDAQ	35	1.5x	1.2x	n.a.	n.a.	n.a.	n.a.	n.m	27.1x	n.a.	n.a.	16.4x	n.a.
Chroma Ate Inc.	Taiwan	1,678	4.3x	3.6x	3.2x	23.7x	15.8x	13.1x	28.8x	18.5x	15.0x	31.5x	20.6x	16.6x
Cohu, Inc.	NASDAQ	586	1.5x	1.5x	1.3x	n.m	16.4x	7.8x	n.m	29.0x	12.1x	n.m	n.m	13.1x
Teradyne, Inc.	NASDAQ	9,551	4.5x	3.9x	3.7x	15.7x	13.7x	12.3x	19.3x	16.1x	14.1x	24.8x	20.7x	17.9x
Average peer group		4,164	3.1x	2.7x	2.8x	17.7x	15.2x	11.0x	21.5x	21.3x	13.4x	25.5x	19.7x	16.1x
Median peer group		1,678	3.5x	3.3x	3.0x	15.7x	15.2x	11.7x	19.3x	18.5x	13.2x	24.8x	20.6x	16.7x
ELES S.p.A.	Milan	33	1.9x	1.5x	1.2x	10.4x	8.3x	5.2x	25.6x	17.5x	8.9x	39.3x	25.6x	12.4x

Source: FactSet, KT&Partners' elaborations

EV/EBITDA Multiple Valuation

Multiple Valuation (€mn)	2020E	2021E
EV/EBITDA Comps	15.2x	11.7x
ELES S.p.A. EBITDA	4.22	6.67
Enterprise value	64.2	77.8
Eles S.p.A. FY19 NFP	2.1	2.1
Equity Value	62.2	75.7
Average Equity Value	68.9	
Liquidity/Size Discount	15%	
Equity Value Post-Discount	58.6	
Number of shares (thousand)	11.2	
Value per Share €	5.25	

Source: FactSet, KT&Partners' elaborations

DCF Model

We have also conducted our valuation using a four-year DCF model, based on 10.1% cost of equity, 3% cost of debt and a target capital structure with 12.2% debt (Damodaran for semiconductor equipment sector). The cost of equity is a function of the risk-free rate of 1.63% (Italian 10y BTP), 6.03% equity risk premium (Damodaran for a mature market - May Update). We, therefore, obtained 9.3% WACC.

We discounted 2020-2023E 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

€ thousand	2020E	2021E	2022E	2023E
EBIT	2,003	3,955	6,347	8,567
Taxes	(601)	(1,186)	(1,904)	(2,570)
D&A	2,216	2,714	2,483	1,900
Change in Net Working Capital	(884)	(715)	(794)	(585)
Change in Funds	347	404	467	515
Net Operating Cash Flow	3,081	5,172	6,599	7,827
Capex	(3,900)	(2,750)	(2,250)	(1,750)
FCFO	-819	2,422	4,349	6,077
g	2.0%			
Wacc	9.3%			
FCFO (discounted)	(776)	2,100	3,451	4,412
Discounted Cumulated FCFO	9,188			
TV	84,994			
TV (discounted)	61,709			
Enterprise Value	70,896			
FY19 NFP	2,088			
Equity Value	68,808			
Current number of shares (mn)	11.2			
Value per share (€)	6.17			

Source: FactSet, KT&Partners' elaborations

DCF Sensitivity Analysis

€ thousand		WACC				
Terminal growth Rate		9.8%	9.5%	9.3%	9.0%	8.8%
	1.5%	60,095	62,260	64,566	67,026	69,657
	1.8%	61,881	64,172	66,617	69,231	72,032
	2.0%	63,781	66,211	68,808	71,592	74,582
	2.3%	65,808	68,389	71,155	74,127	77,327
	2.5%	67,973	70,722	73,675	76,855	80,289

Source: FactSet, KT&Partners' elaborations

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 market. 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 peer analysis, we built a sample of five companies which includes:

- **Advantest Corp.:** listed on the Tokyo stock exchange with a market capitalization of €9bn, 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 FY19, the company reached revenue of €2.3bn. It operates through the:
 - Semiconductor and Components Test Systems segment which offers test systems for semiconductor and electronic component industries (75% of FY19 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 (14% of FY19 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 €35mn, 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 (69.4% of FY18 total sales), test during Burn-In systems (30.6% of FY18 total sales), test fixtures and dye carriers. In FY18, the company reached revenues of €18mn;
- **Chroma ATE Inc.:** listed on the Taiwan stock exchange with a market capitalization of €1.7bn, 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 FY19, the company reached revenue of €0.4bn;
- **Cohu Inc.:** listed on Nasdaq with a market capitalization of €0.6bn, Cohu Inc. engages in the provision of back-end semiconductor equipment and services. It operates through the Semiconductor Test and Inspection (98% of FY18 total revenue), and Printed Circuit Board Test segments. In FY19, the company reached revenue of €0.5bn;

- **Teradyne Inc.:** listed on Nasdaq with a market capitalization of €9.6bn, Teradyne Inc. supplies automation equipment for test and industrial applications. In FY19, the company reached revenue of €2.1bn. It operates through the:
 - Semiconductor Test segment (67.6% 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 (12.5% of FY19 total revenue) which comprises the defense and aerospace, storage test, and production board test business unit;
 - Wireless Test segment (6.9% 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 (13.0% of FY19 total revenue) which supplies collaborative robots that work side by side with production workers.

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

