

Improving Half-Year Sales and Margins

ADD | Fair Value: €3.44 (€3.44) | Current Price: €1.36 | Upside: +153%

€ Million	FY18A	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Total Revenues	22.6	18.2	19.1	19.7	26.9	33.6	39.4	47.1
EBITDA	3.8	3.4	3.5	3.2	3.5	4.8	6.6	8.7
margin	16.7%	18.4%	18.5%	16.0%	13.1%	14.3%	16.7%	18.5%
Net Profit	0.8	0.8	1.7	0.9	0.7	1.2	2.3	3.6
margin	3.3%	4.6%	8.8%	4.3%	2.4%	3.7%	5.8%	7.6%
EPS	n.a.	0.08	0.15	0.06	0.05	0.07	0.13	0.20
NFP/(Cash)	4.9	2.1	(0.5)	(3.2)	7.9	3.7	1.9	(2.3)

Source: Company data, KT&Partners' elaboration

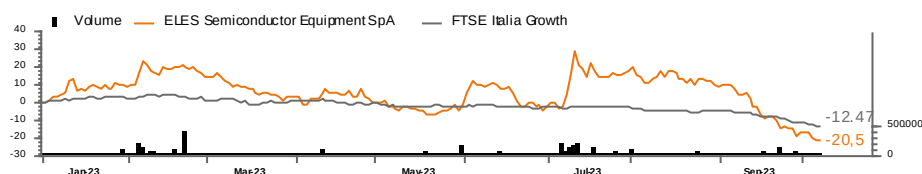
1H23 financial results. In 1H23 ELES reached €14.6mn of sales revenues, almost in line with our estimates and +44% YoY, boosted by CBL Electronics contribution – that weighted for ca. €3.5mn of 1H23 revenues – and by the launch of new innovative solutions. Without considering CBL Electronics, the company registered ca. €11mn of sales revenues, up by more than 9% compared to 1H22. Services' revenues – Eles' countercyclical offer – accounted for ca. 72% of sales amounting to €10.6mn, +95% YoY mainly driven by the positive demand from Automotive and A&D segments. Foreign sales contributed for ca. 57% of total sales, vs. 78% in 1H22 on the back of new acquired companies' whose offer is more focused inside Italy. The more profitable revenue mix enabled the company to improve EBITDA margin at 14%, + 3.7pp YoY and ca. 2pp above our estimates, more than offsetting the higher incidence of fixed costs – especially Personnel costs, with the increase in employees from 108 in 1H22 to 183 in 1H23 – on the back of new companies' consolidation. In absolute terms, EBITDA came at €2.1mn, +92.6% YoY and +10.6% than expected. 1H23 Net income was at €0.2mn, negatively impacted by higher-than-expected D&As and higher financial expenses. Finally, net debt improved to €4.6mn (from €7.9mn in FY22), benefitting from €6.5mn of cash-in from the capital increase subscribed in February 2023, despite a higher NWC absorption on inventories' side and €1.5 of R&D Capex.

Extending the warrant exercise deadline to support further growth. On September 25th, 2023, ELES' BoD approved the proposal for the shareholders' meeting of warrant holder to modify the "Warrant ELES 2019-2024" regulation, with the aim to extend the final term of warrant exercise, currently fixed in June, 2024. The BoD proposed to add two exercise period in June 2025 and June 2026, respectively, keeping the price unchanged with respect to the previous last window at €2.20ps. The change in regulation is expected to provide an enhanced investment opportunity for warrant holders – being warrant currently out of the money – while enabling the Company to benefit from potential additional resources and to facilitate the stock liquidity through the potential increase in company's free float.

Change in estimates. On the back of 1H23 results, we confirmed our top-line and profitability estimates. We anticipate FY23E total revenues at €33.6mn, growing at a CAGR22-25E of +20.5% supported by i) growth perspective in A&D market (CAGR22-27 +5.9%) and Semiconductor market (rebound of +11.8% YoY in 2024), ii) RETE methodology evolution with new innovative features, iii) cross- and up-selling strategies and iv) exploiting synergies with the acquired companies. Despite a better-than-expected profitability in 1H23, we cautiously confirmed our estimates at the EBITDA level, expecting the chip shortage and the inflation to partially persist in the second half of the year leading to a FY23 EBITDA margin at 14.3%. Profitability is then expected to gradually improve, reaching 18.5% in FY25. Finally, the NFP is expected to worsen at €3.7mn in FY23E (from €0.4mn of cash expected before) – on the back of a higher expected NWC absorption together with a slight increase in Capex compared to our old projections – to reach €2.3mn of cash in FY25E.

Valuation. Our valuation – based on both DCF and multiple methods – returns an equity value of €60.6mn or a fair value of €3.44ps, implying an upside of +153% on the current price.

YTD Relative Performance Chart



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Research Update

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Market Data

Main Shareholders	
Zaffarini Antonio	24.0%
Franceschin Carla	6.2%
Zaffarini Francesca	3.9%
NextStage AM	10.0%
Mkt Cap (€ mn)	24.0
EV (€ mn)	26.3
Shares issued (mn)	17.6
Free Float (%)	66.0%

Market multiples	2022	2023	2024
EV/EBITDA			
ELES	6.8x	5.0x	3.6x
Comps median	15.5x	22.5x	15.8x
ELES vs Median	-56%	-78%	-77%
P/E			
ELES	28.7x	19.2x	10.6x
Comps median	21.4x	35.6x	23.5x
ELES vs Median	34%	-46%	-55%

Stock Data

52 Wk High (€)	2.15
52 Wk Low (€)	1.25
Avg. Daily Trading 90d	40,848
Price Change 1w (%)	-3.1%
Price Change 1m (%)	-27.0%
Price Change YTD (%)	-20.5%

Key Figures – ELES S.p.A.

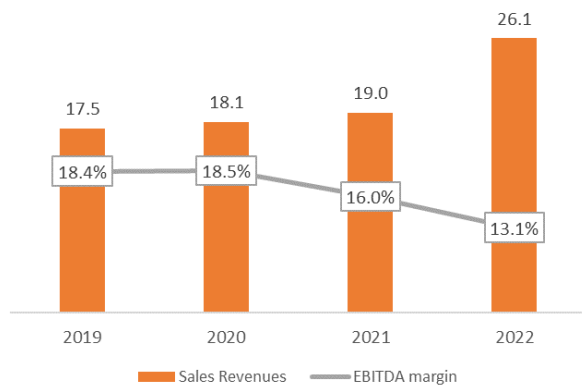
	Current price (€)	Fair Value (€)	Sector					Free Float (%)
	1.36	3.44	Semiconductor Testing					66.0%
Per Share Data	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E
Total shares outstanding (mn)	n.m.	11.16	11.32	13.6	13.8	17.6	17.6	17.6
EPS	n.m.	0.08	0.15	0.06	0.05	0.07	0.13	0.20
Dividend per share (ord)	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	22.6	18.2	19.1	19.7	26.9	33.6	39.4	47.1
EBITDA	3.8	3.4	3.5	3.2	3.5	4.8	6.6	8.7
EBIT	1.5	1.4	1.6	1.1	1.2	2.4	3.7	5.4
EBT	1.2	1.0	1.5	1.1	1.0	1.6	3.0	4.7
Taxes	(0.5)	(0.2)	0.2	(0.3)	(0.4)	(0.4)	(0.7)	(1.1)
Tax rate	39%	17%	-16%	23%	35%	23%	23%	23%
Net Income	0.8	0.8	1.7	0.9	0.7	1.2	2.3	3.6
Net Income attributable to the Group	0.8	0.8	1.7	0.9	0.7	1.2	2.3	3.6
Balance Sheet (EUR million)								
Total fixed assets	8.3	8.8	8.5	9.2	16.7	18.0	18.3	18.2
Net Working Capital (NWC)	4.4	6.6	6.3	8.0	13.5	15.8	17.0	17.7
Provisions	(1.3)	(0.9)	(0.9)	(0.9)	(1.7)	(2.7)	(3.7)	(4.9)
Total Net capital employed	11.4	14.6	13.9	16.3	28.5	31.1	31.6	31.0
Net financial position/(Cash)	4.9	2.1	(0.5)	(3.2)	7.9	3.7	1.9	(2.3)
Group Shareholder's Equity	6.5	12.5	14.4	19.5	20.6	27.4	29.7	33.3
Minorities	-	-	-	-	-	-	-	-
Total Shareholder's Equity	6.5	12.5	14.4	19.5	20.6	27.4	29.7	33.3
Cash Flow (EUR million)								
Net operating cash flow	3.3	3.1	3.8	2.9	3.1	4.2	5.7	7.5
Change in NWC	(0.4)	(2.2)	0.3	(1.7)	(5.5)	(2.2)	(1.3)	(0.7)
Capital expenditure	(0.7)	(2.4)	(2.1)	(2.4)	(9.5)	(3.4)	(2.9)	(2.9)
Other cash items/Uses of funds	-	0.3	0.6	0.4	0.5	0.6	0.7	0.8
Free cash flow	1.9	(2.0)	2.5	(1.6)	(11.4)	(0.8)	2.3	4.8
Enterprise Value (EUR million)								
Market Cap	n.a.	51.8	34.0	47.9	29.5	24.0	24.0	24.0
Minorities	-	-	-	-	-	-	-	-
Net financial position/(Cash)	4.9	2.1	(0.5)	(3.2)	7.9	3.7	1.9	(2.3)
Enterprise value	n.a.	53.9	33.5	44.7	37.3	27.6	25.9	21.7
Ratios								
EBITDA margin	16.7%	18.4%	18.5%	16.0%	13.1%	14.3%	16.7%	18.5%
EBIT margin	6.5%	7.5%	8.2%	5.4%	4.5%	7.1%	9.4%	11.5%
Gearing - Debt/equity	74.5%	16.7%	-3.7%	-16.3%	38.3%	13.4%	6.5%	-6.8%
Interest cover on EBIT	16.0%	13.4%	6.7%	-4.3%	16.4%	32.0%	20.2%	13.7%
NFP/EBITDA	1.3x	0.6x	-0.1x	-1.0x	2.2x	0.8x	0.3x	-0.3x
ROCE	12.8%	9.4%	11.2%	6.6%	4.2%	7.7%	11.7%	17.4%
ROE	11.5%	6.7%	11.7%	4.4%	3.2%	4.5%	7.6%	10.7%
EV/Sales	1.1x	1.3x	1.3x	1.2x	0.9x	0.7x	0.6x	0.5x
EV/EBITDA	6.3x	7.1x	6.8x	7.6x	6.8x	5.0x	3.6x	2.7x
P/E	31.8x	28.6x	9.1x	21.7x	28.7x	19.2x	10.6x	6.7x
Free cash flow yield	8.1%	-8.5%	10.4%	-6.6%	-47.6%	-3.2%	9.6%	19.9%
Growth Rates (%)								
Sales	57.0%	-19.4%	4.8%	3.4%	36.5%	24.7%	17.4%	19.5%
EBITDA	35.2%	-11.1%	5.1%	-10.4%	11.2%	36.1%	37.8%	32.2%
EBIT	143.0%	-6.8%	13.9%	-31.2%	12.1%	99.5%	55.1%	45.1%
Net Income	307.0%	11.3%	101.0%	-49.2%	-23.6%	91.1%	81.9%	57.1%

Source: Company data, KT&Partners' elaboration

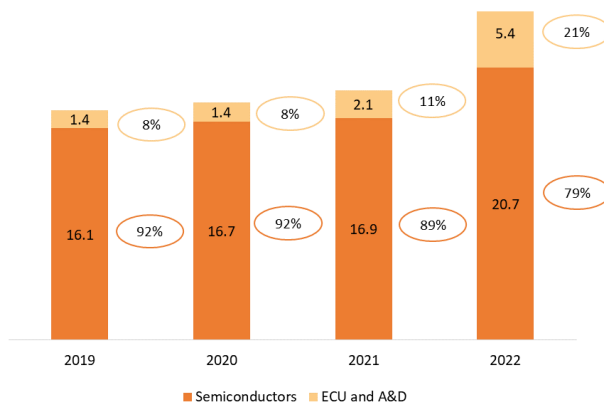
Note: FY20 net income benefitting from a €0.5mn tax advantage related to a property revaluation in accordance with Law Decree 104/202.

Key Charts

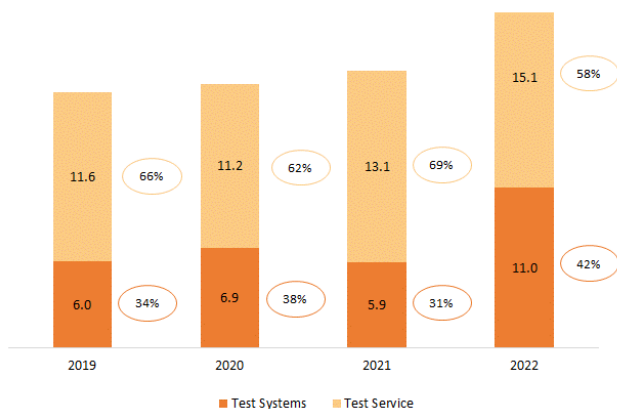
Sales Revenues and EBITDA Margin (€mn, %)



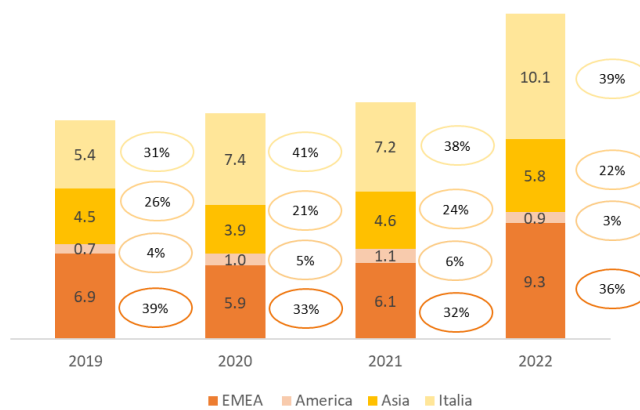
Sales Revenues by Product Line (€mn, %)



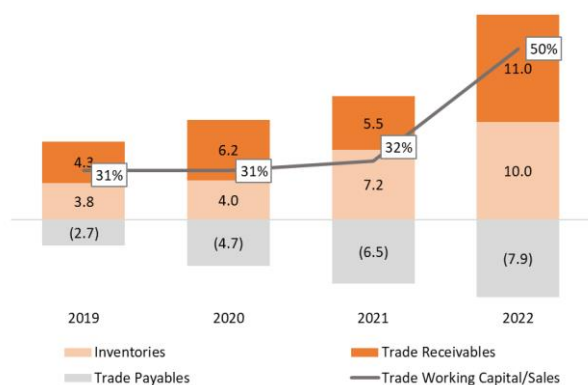
Semiconductors Sales Revenues (€mn, %)



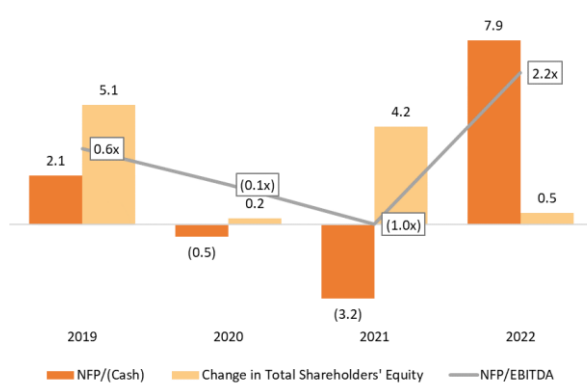
Sales Revenues by Geographic Area (€mn, %)



Trade Working Capital (€mn, %)



NFP, Change in Shareholders Equity and NFP/EBITDA (€mn)



Overview

Company description

ELES is an Italian company active since 1988 in the market for reliability testing equipment for semiconductors. ELES has developed an innovative semiconductor testing solution (**RETE**) – based on a Test for Reliability approach – which allows for the testing of both the reliability and performance of semiconductor devices, with important advantages in terms of timing and cost savings with respect to traditional tests. The company has also introduced its solutions in the testing market for Electronic Control Units (ECU) for the Automotive and Aerospace & Defense industries.

On June 19, 2019, ELES became listed on EGM market, raising €6mn. Benefitting from increased brand awareness in Italy and abroad, the company has used IPO proceeds to support its innovation process and market-share expansion through internal and external growth.

Investment case

- **RETE approach to support customers in achieving the “zero-defect” goal.** The RETE approach allows up to 80% of the functional testing to be carried out during the Burn-In phase (*Test-for Reliability*) with important advantages in terms of time and cost savings. Future strategies entail further increased coverage of the functional test, up to 100% (Total Test) on the TfR platform.
- **Constantly innovating and developing new solutions to remain competitive.** Thanks to its 30 years of experience, ELES boasts a rich and continuously updated IP library that forms the basis of the software used to test different semiconductor devices and families. Thanks to an **R&D team with strong know-how** that continually innovates and designs machine-testing solutions, ELES is able to meet market needs and anticipate competitors’ moves.
- **Continued expansion of customer base and portfolio of orders.** Over the years, ELES has acquired new strategic clients in Europe, the Far East, the USA, and Israel, increasing its international presence while diversifying its customer base.
- **Setting the Italian Semiconductor Testing District.** Thanks to the new synergies and incoming experience following the acquisitions of Campera and CBL Electronics in January 2022 and October 2022, respectively, ELES aims to define the Italian innovation space that aggregates different semiconductor testing technologies, **providing a complete offer from design to production** on ATE platforms. The group has also strengthened its positioning in the crucial **A&D segment**, with an undoubted competitive advantage over competitors thanks to its RETE methodology.

Recent developments

- **A new high-profile partnership in the Silicon Valley.** In 1H23 Integrated Circuits Engineering (ICE) Lab chose the liquid-cooled Eles ART HPH semiconductor qualification platform to process ultra-high-power for AI, a fast-growing market in which RETE could provide an ever-growing reliable technology. The new agreement enriched the partnership signed in February, 2023 with a leading US Outsourced Semiconductor Assembly and Test (OSAT) specialized in chip qualification for mission-critical applications. Leveraging on the RETE methodology, ELES was selected as the only supplier able to guarantee the fast zero-defect roadmap. The deals are part of Eles’ expansion strategy in the US, focused on identifying big players to enable RETE methodology diffusion as a distinctive advantage in semiconductor chip qualification.
- **A reliable supplier for the “Comet Interceptor” mission.** In June 2023, Eles achieved a strategical order from OHB Italia SpA to realize an Electrical Group Support Equipment (ESGE) for a European Space Agency mission. Eles is expected to supply an elaborate

hardware and software system that will be used to test and validate the satellite of the “Comet Interceptor” mission before launch. Company’s involvement in high-scientific value mission confirms Eles’ test reliability, while consolidating Group’s positioning in the strategic A&D segment.

- **Eles rises to 100% of CBL Electronics: closing of the remaining 4% acquisition.** On July 14th, 2023 Eles announced the closing of the acquisition of the remaining 4% stake in CBL Electronics for a total consideration of €60k, leading Eles to become the sole shareholder of CBL. We note that the acquisition was approved during Eles’ BoD occurred in May 2023.
- **Co-funding four PhD grants on new technologies for high-reliability electronics.** In July 2023 Eles announced to have co-funded four PhD grants, in cooperation with the Department of Engineering and the University of Perugia. The three-years program includes a training period both at Todi headquarter and at the Fraunhofer Institute for ENAS, with which Eles signed a strategic partnership. The PhD program is expected to train the specific professional skills required by microchip manufacturer, while enabling to PhD students to face the challenge of innovation.
- **New strategic partnership with UniPG and Fraunhofer.** In May 2023, ELES signed a strategic partnership with the University of Perugia and the Fraunhofer Institute for Electronic Nano Systems (ENAS), The German institute qualified in the intelligence system field and in their integrations. This collaboration is expected to improve the reliability of devices and semiconductor systems, leveraging on an innovative model that combines device-oriented technologies with data-oriented ones.
- **European AI chooses ELES: new order from a new leading European chip developer.** In April 2023, ELES announced having gained a new order for the “test ART LC2F” system from a leading European developer of artificial intelligence and data management chips. The new solution is expected to be delivered by 2023 and will be featured from a high-power of 1500w. Thanks to its unique offer, ELES’ is the only player in the world able to deliver solutions able to respond to these requirements.
- **Enriching its shareholder base through a capital increase.** On February 2, 2023, ELES approved an increase in share capital – fully subscribed on February 3, 2023 – for 3.8mn newly issued shares or €6.5mn of total capital increase (€1.7ps). The capital increase enabled the company to broaden its shareholder base with an increasing number of qualified investors, leading the free float of the company to increase at ca. 66% from 56.5%. We note that NextStage AM stake reached 10.02% of total shareholder capital, now holding ca. 1.8mn of shares. Following the capital increase, Zaffarami’s family owns 34% of the ordinary shares (previously 43.5%) and 38.2% of voting rights (previously 47.9%). The capital increase also provided the company with additional resources to support R&D activities and external growth.
- **In Italy, the National chip hub takes shape.** In December 2022, the Italian Parliament approved the “Italian center for IC semiconductor design,” with the aim to develop and produce integrated circuits – becoming as independent as possible from foreign producers – also thanks to a wide hub of universities, research centers, and enterprises promoting innovation in the microelectronics field. The law allocated an initial investment for the project of €10mn in 2023, growing at €25mn per year from 2024 to 2030, also assigning €5mn in the 2023–25 period for operational activities.
- **Growing commitment to sustainability.** During the last year, the group obtained system certifications for the Environment (UNI ISO 14001:2015) and for Occupational Health and Safety (UNI ISO 45001:2018). To confirm its attention to sustainability, ELES renewed its Quality Management System certification (UNI ISO 9001:2015), one of the founding pillars of ELES, extending its scope to the Design of Electronic Modules for Mission-Critical Sectors.

- **Acquisition of CBL Electronics.** In October 2022, ELES announced the closing of the acquisition of a 96% stake in CBL Electronics, a Todi-based company active in the design and production of hardware and software for testing semiconductors, boards, and electronic systems, focused on the Aerospace and Defense segment. The total deal consideration was fixed at €1.35mn (or an EV/EBITDA at 8.6x).
- **Eles (Shanghai) International Trade Co. Ltd establishment.** In February 2022, ELES established Eles International Trade Co. Ltd, 100% owned by ELES. The Chinese-based company was established with the aim to ensure a direct presence in the Chinese market, facilitating the distribution process and the required technical assistance on ELES' solutions. We note that as of May 2023, the company was not yet operative.
- **Acquisition of Campera Electronic Systems in January 2022.** Campera is a Livorno-based company, operating in the Aerospace & Defense sectors since 2014, providing design and Intellectual Property (IP) for Video, Radar, Mission- and Safety-Critical systems on the latest FPGA and System-on-Chip technologies.

1H23 Financial Results

Almost in line with our estimates (-3.6%), in 1H23 the Group reported €14.6mn of sales revenues posting a +44.1% YoY growth. The rise in revenues was boosted by CBL Electronics contribution that weighted on its own for ca. €3.5mn of total sales. On a like-for-like basis – i.e. company's growth without considering CBL contribution – ELES registered ca. €11.1mn of sales revenues, up by more than 9% compared to 1H22.

Looking at ELES' business by product line, Semiconductor came in at €10.1mn, +8.2% YoY, backed by Group's innovation capacity that, alongside the increased demand in mission critical sectors and the launch of new solutions on the market, enabled to achieve four new customers in Europe and the US. The growth in revenues was even more meaningful if compared to the negative trend of the global automated test equipment (ATE) market – ELES' reference market – that in 2023 is expected to decrease by 11% YoY¹, dragged down by i) the contraction in consumers' spending on electronic devices following the growing inflation and after the booming years of pandemic, ii) the persisting shortage on mission critical sector, that led many companies in shifting the planned investments. The A&D segment – related to government investment programs in Aerospace and Defense at national and international level – amounted to €4.4mn (ca. 30% of total sales), 5x 1H22 sales (€0.7mn), driven by CBL Electronics positive contribution.

Services' revenues – ELES' countercyclical offer – accounted for ca. 72% of consolidated sales, amounting to €10.6mn and showing an increase of +95% YoY mainly following the boost in Automotive and A&D demand. On the other side, we note that System's offer – ELES' cyclical business, that decreased from 47% to 28% of total sales – suffered a slowdown following the shift in investments by many chip producers to increase their production capacity, on the back of the persisting inflation and the weakened demand in some semiconductor segments.

Foreign sales weighted for 57% of total sales, of which 32.1% attributable to EMEA countries, confirming ELES' quality solutions and appreciation abroad. The contraction of foreign presence with respect to 1H22 – when foreign sales accounted for more than 78% of total sales – is the consequence of CBL and Campera contribution, that enabled on the other side a consolidation of ELES' national positioning.

Gross profit amounted to €10mn, increasing by 75.7% YoY and being 17.3% above our estimates. The different revenue mix – with CBL Electronics characterized by a lower raw materials costs' incidence – enabled ELES' to more than offset the persisting negative impact of inflation and chip shortage, resulting in an improved gross margin at 68.6%, 13.3pp and 12.4pp above 1H22 values and our expectations, respectively.

Looking at the EBITDA, the company reported an EBITDA margin at 14%, increasing by 3.7% YoY and being ca. 2pp above our forecasts. This was the result of a growing gross margin, despite a higher fixed costs' incidence (especially Personnel costs that was ca. +9pp YoY and ca. +8pp on our forecasts, following the increase in resources from 108 in 1H22 to 183 in 1H23), on the back of new companies' consolidation. In absolute terms, 1H23 EBITDA amounted to €2.1mn, almost doubling YoY and being 10.6% better than expected.

1H23 ELES' net income stood at €0.2mn, posting a +89.9% YoY growth but -26.6% than forecasted, negatively impacted from higher-than-expected D&As, higher financial expenses due to the increased cost of debt (€0.4mn vs €0.3mn expected) and higher taxes, with a tax rate at ca.55% (vs ca.50% in 1H22 and vs 36% expected).

Finally, 1H23 NFP improved to €4.6mn, from a net debt of €7.9mn at the end of FY22 mainly thanks to €6.5mn of cash-in from the capital increase approved and subscribed in February 2023, more than offsetting i) a higher TWC absorption that reflects the growing inventories (+€2.7mn vs FY22) to cope with raw materials' shortage and on the back of the slowdown in test systems' business that led to an increase in related stocks and ii) €1.5mn of R&D Capex

¹ Source: TestInsights Resesarch, July 2023

for the development of innovative solutions attributable to both Eles' and CBL Electronics new projects.

1H22-1H23 Income Statement

€ million	1H22	1H23	YoY %	1H23E	A vs E %
Sales	10.1	14.6	44%	15.1	-3.6%
Other Revenues	0.3	0.1	-59.0%	0.2	-37.2%
Total Revenues	10.3	14.7	41.6%	15.3	-3.9%
Products and Raw materials	(4.6)	(4.6)	-0.4%	(6.7)	-31.1%
Gross Profit	5.7	10.0	75.7%	8.6	17.3%
<i>Gross Margin</i>	<i>55.3%</i>	<i>68.6%</i>	<i>13.3%</i>	<i>56.2%</i>	<i>12.4%</i>
Cost of Services	(2.4)	(3.4)	43.8%	(3.2)	6.7%
Personnel Expenses	(2.1)	(4.3)	106.0%	(3.3)	31.7%
Other Operating Expenses	(0.2)	(0.3)	47.7%	(0.3)	13.9%
EBITDA	1.1	2.1	92.6%	1.9	10.6%
<i>EBITDA margin</i>	<i>10.3%</i>	<i>14.0%</i>	<i>3.7%</i>	<i>12.2%</i>	<i>1.8%</i>
D&A and Provisions	(0.9)	(1.2)	26.1%	(1.0)	12.9%
EBIT	0.1	0.9	n.m.	0.8	7.6%
<i>EBIT margin</i>	<i>1.4%</i>	<i>6.0%</i>	<i>4.7%</i>	<i>5.4%</i>	<i>0.6%</i>
Financial Income and Expenses	0.1	(0.4)	n.m.	(0.3)	12.7%
Extraordinary items					
EBT	0.2	0.5	111.0%	0.5	3.9%
Taxes	(0.1)	(0.3)	132.2%	(0.2)	58.2%
<i>Tax Rate</i>	<i>49.8%</i>	<i>54.8%</i>		<i>36.0%</i>	<i>18.8%</i>
Net Income	0.1	0.2	89.9%	0.3	-26.6%
<i>Net margin</i>	<i>1.2%</i>	<i>1.5%</i>	<i>0.4%</i>	<i>2.0%</i>	<i>-0.5%</i>

Source: Company Data (1H22-1H23), KT&P's Elaborations (1H23E)

FY22-1H23 Balance Sheet

€ mn	FY22	1H23	Delta
Goodwill	0.6	0.6	0.0
Intangible	8.6	9.5	0.9
Tangible	7.1	7.5	0.4
Other LT Assets	0.5	0.5	0.0
Fixed Assets	16.7	18.0	1.3
Trade receivables	11.0	9.4	(1.6)
Inventory	10.0	12.8	2.7
Trade Payables	(7.9)	(7.5)	0.4
Trade Working Capital	13.1	14.7	1.5
Other assets and liabilities	0.4	0.1	(0.3)
Net Working Capital	13.5	14.8	1.2
Other Provisions	(1.7)	(1.7)	(0.0)
Net Capital Employed	28.5	31.0	2.5
Group shareholders' equity	20.6	26.4	5.8
Minority shareholders' equity	0.0	0.0	0.0
Total shareholders' equity	20.6	26.4	5.8
Short-term debt / Cash (-)	(8.5)	(6.9)	1.6
Long-term liabilities	16.4	11.5	(4.8)
Net Financial Position	7.9	4.6	(3.2)
Sources	28.5	31.0	2.5

Source: Company Data

Change in Estimates

On the back of 1H23 ELES results, we confirmed our top-line and profitability old estimates over the 2023E-2025E period. Our forecasts are backed by several incoming Group's opportunities, as:

- the bright growth perspective of the Aerospace and Defense market, where the company recently consolidated its positioning through CBL and Campera unique and innovative solutions. Indeed, after a resilient 2022, when A&D industry reported \$741bn of revenues (+3% YoY),² A&D market size is confirmed to exceed \$1bn by 2027, growing at a CAGR22-27 of 5.9%;³
- the worldwide semiconductor market rebound starting from 2024, with an expected double-digit growth of 11.8%, reaching \$576bn in 2024;⁴
- RETE methodology evolution – through the introduction of the Design for Silicon Lifecycle Management, DfSLM to monitor the entire chip lifecycle management ensuring more reliability and mission critical's safety – also leveraging on the partnership with the Fraunhofer Institute for Electronic Nano Systems;
- cross- and up-selling strategies thanks to a more integrated and complete value chain, consolidating its positioning in countries with a smaller presence;
- exploiting the synergies both at top-line and costs level with the acquired companies, becoming a high-tech aggregating hub.

We thus confirmed FY23E total revenues at €33.6mn, growing at a CAGR22–25E of 20.5%, reaching €47.1mn in FY25E.

Despite a better-than-expected profitability in 1H23, we cautiously confirmed our estimates at the EBITDA level, expecting the chip shortage and the inflation to partially persist in the second half of the year leading to a FY23 EBITDA margin at 14.3% and reaching 18.5% in FY25E. In absolute terms, EBITDA is projected to reach €4.8mn in FY23E, growing at a CAGR22–25E of 35.4% to €8.7mn in FY25E.

At the bottom line, we slightly revised downward our old net income estimates to factor in i) higher financial expenses reflecting a higher cost of debt and ii) a slight increase in D&As on the back of higher-than-expected Capex. We estimate a FY23E net income at €1.2mn (vs €1.4mn expected before) to reach €3.6mn in FY26E (CAGR22.26E +76.1%).

Finally, we foresee a FY23E at €3.7mn NFP (instead of €0.4mn of cash expected before), considering i) a higher NWC absorption, expecting the partial reduction in inventories in 2H23 to be offset by an increase in DSO, on the back of an expected trade receivable concentration in the last months of the year and ii) higher-than-forecasted Capex. After a 2023 still partially impacted by chip shortage crisis, we expect the following recovery to result in a better NWC management (NWC/Sales ratio from 47% in FY23E to 38% in FY25E), enabling the Group – alongside an improved profitability – to reach a net cash position of €2.3mn in FY25E.

² Source: PwC, Annual industry Performance and outlook, 2023 edition

³ Source: Aerospace and Defense Global Market Report, The Business Research Company, January 2023

⁴ Source: WSTS Forecasts, Spring 2023

Change in Estimates

€ mn	2021	2022E	2022	Delta	2023E	2023E	Change	2024E	2024E	Change	2025E	2025E	Change	CAGR	CAGR
	Actual	Old	Actual	A vs E	Old	New		Old	New		Old	New		2022-25 Old	2022-25 New
Total Revenues	19.7	23.3	26.9	15.4%	33.6	33.6	0.0%	39.4	39.4	0.0%	47.1	47.1	0.0%	20.5%	20.5%
YoY Change (%)	3.4%	18.3%	36.5%		24.7%	24.7%		17.4%	17.4%		19.5%	19.5%			
EBITDA	3.2	2.6	3.5	37.1%	4.8	4.8	0.0%	6.6	6.6	0.0%	8.7	8.7	0.0%	35.4%	35.4%
YoY Change (%)	-10.4%	-18.8%	11.2%		36.1%	36.1%		37.8%	37.8%		32.2%	32.2%			
EBITDA Margin	16.0%	11.0%	13.1%	2.1%	14.3%	14.3%	0.0%	16.7%	16.7%	0.0%	18.5%	18.5%	0.0%		
EBIT	1.1	0.5	1.2	143.4%	2.4	2.4	-1.7%	3.8	3.7	-2.2%	5.5	5.4	-1.5%	65.8%	65.0%
YoY Change (%)	-31.2%	-53.9%	12.1%		102.9%	99.5%		55.8%	55.1%		44.1%	45.1%			
Net Income	0.9	0.3	0.7	129.2%	1.4	1.2	-11.7%	2.6	2.3	-12.8%	3.9	3.6	-8.5%	81.4%	76.1%
YoY Change (%)	-49.2%	-66.7%	-23.6%		116.3%	91.1%		84.2%	81.9%		49.8%	57.1%			
NFP	(3.2)	4.4	7.9	3.5	(0.4)	3.7	4.1	(3.5)	1.9	5.4	(6.5)	(2.3)	4.3		

Source: Company data, KT&Partners' elaboration

Valuation

Following ELES' future financials projections, we have carried out our valuation using the multiples and DCF methods. Our valuation is based on 17.6mn of shares, as we included also the 3.8mn of new shares issued in February 2023 after the capital increase.

Our fair value is the result of:

- **EV/EBITDA and P/E multiples:** with a 15% liquidity discount, which returns a value of €3.93ps;
- **DCF analysis** based on WACC of 12.2% and 2% perpetual growth, which returns a value of €2.95ps.

The average of the two methods yields a fair value of €3.44ps.

When valuing the company, we do not take into consideration the warrant dilution effect, as the warrants are currently out of the money (strike price €2.15ps).

Valuation Recap

	Equity Value €mn	Value per share €
EV/EBITDA	92.04 €	5.22 €
P/E	46.50 €	2.64 €
Average Multiple	69.27 €	3.93 €
DCF	51.97 €	2.95 €
Average	60.62 €	3.44 €

Source: FactSet, KT&Partners' elaboration

Market Multiples Valuation

Following our comps analysis, we evaluate the company by using the 2023–25 EV/EBITDA and P/E market multiples of the peer sample. Our valuation also includes a 15% liquidity/size discount and considers our estimates of ELES' EBITDA and Net income for 2023, 2024, and 2025.

We note that we considered NFP FY22 adjusted for the €6.5mn of cash-in following the capital increase occurred in February, 2023 and for the cash-in following warrant exercise in the eight window closed in June 2023.

Peer Comparison – Market Multiples 2022–25

Company Name	Exchange	Market Cap	EV/SALES 2022	EV/SALES 2023	EV/SALES 2024	EV/SALES 2025	EV/EBITDA 2022	EV/EBITDA 2023	EV/EBITDA 2024	EV/EBITDA 2025	EV/EBIT 2022	EV/EBIT 2023	EV/EBIT 2024	EV/EBIT 2025	P/E 2022	P/E 2023	P/E 2024	P/E 2025
Advantest Corp.	Tokyo	20,296	4.9x	6.3x	5.4x	4.8x	14.6x	23.3x	17.1x	14.6x	16.5x	28.3x	18.9x	15.5x	21.4x	37.3x	24.7x	20.1x
Aehr Test Systems	NASDAQ	1,055	16.3x	10.4x	6.7x	4.7x	n.m	n.a.	n.a.	n.a.	n.m	n.m	22.4x	13.4x	n.m	37.0x	25.9x	19.4x
Chroma Ate Inc.	Taiwan	3,373	4.6x	5.0x	4.4x	4.1x	17.9x	16.7x	14.4x	13.9x	20.4x	18.6x	15.8x	15.0x	20.5x	22.5x	18.9x	17.8x
Teradyne, Inc.	NASDAQ	14,712	4.7x	5.6x	4.6x	3.9x	15.5x	22.5x	15.8x	12.1x	17.5x	27.8x	17.3x	13.0x	23.8x	35.6x	22.3x	16.6x
Technoprobe SpA	Milan	4,360	7.3x	9.4x	7.4x	6.4x	16.9x	26.9x	17.6x	14.8x	20.0x	36.9x	21.4x	17.8x	29.6x	n.m	30.2x	24.6x
Fae Technology S.p.A	Milan	31	0.9x	0.6x	0.6x	0.5x	9.3x	5.7x	4.8x	4.1x	11.6x	7.0x	5.7x	4.8x	14.5x	8.5x	6.9x	5.7x
Average peer group		7,304	6.5x	6.2x	4.8x	4.1x	14.9x	19.0x	13.9x	11.9x	17.2x	23.7x	16.9x	13.2x	22.0x	28.2x	21.5x	17.4x
Median peer group		3,867	4.8x	6.0x	5.0x	4.4x	15.5x	22.5x	15.8x	13.9x	17.5x	27.8x	18.1x	14.2x	21.4x	35.6x	23.5x	18.6x
ELES S.p.A.	Milan	24	0.9x	0.7x	0.6x	0.5x	6.8x	5.0x	3.6x	2.7x	20.0x	10.0x	6.4x	4.4x	28.7x	19.2x	10.6x	6.7x

Source: FactSet, KT&Partners' Elaboration

EV/EBITDA Multiple Valuation

Multiple Valuation (€mn)	2023E	2024E	2025E
EV/EBITDA Comps	22.5x	15.8x	13.9x
ELES S.p.A. EBITDA	4.8	6.6	8.7
Enterprise value	107.6	104.2	121.2
Average Enterprise Value		111.0	
Liquidity/Size Discount		15%	
Enterprise Value Post-Discount		94.3	
Eles S.p.A. FY22 NFP Adj		2.3	
Minorities FY22		0.0	
Equity Value		92.0	
Number of shares (mn)		17.6	
Value per share		5.2	

Source: FactSet, KT&Partners' elaboration

P/E Multiple Valuation

Multiple Valuation (€mn)	2023E	2024E	2025E
P/E Comps	35.6x	23.5x	18.6x
ELES S.p.A. Net Income	1.2	2.3	3.6
Equity Value	44.4	53.4	66.3
Average Equity Value		54.7	
Liquidity/Size Discount		15%	
Equity Value Post-Discount		46.5	
Number of shares (mn)		17.6	
Value per Share €		2.6	

Source: FactSet, KT&Partners' elaboration

DCF Valuation

We have also performed our valuation using a four-year DCF model, based on an 12.7% cost of equity, 4% cost of debt and a target capital structure with 5.04% debt (Damodaran for the semiconductor equipment sector). The cost of equity is a function of the risk-free rate of 4.3% (Italian 10y BTP), 4.7% equity risk premium (Damodaran for a mature market) and a premium for size at 3.6%. We therefore obtained 12.2% WACC. We note that we considered NFP FY22 adjusted for the cash-in following the capital increase occurred in February, 2023 and for the cash-in following warrant exercise in the eight window closed in June 2023.

We discounted 2022E–25E 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	2023E	2024E	2025E	2026E
EBIT	2.4	3.7	5.4	6.3
Taxes	(0.6)	(0.9)	(1.3)	(1.5)
D&A	2.1	2.5	3.0	3.4
Change in Net Working Capital	(2.2)	(1.3)	(0.7)	(0.3)
Change in Funds	1.0	1.1	1.2	1.2
Net Operating Cash Flow	2.6	5.2	7.6	9.2
Capex	(3.4)	(2.9)	(2.9)	(2.9)
FCFO	(0.8)	2.3	4.8	6.3
g	2.0%			
Wacc	12.2%			
FCFO (discounted)	(0.7)	1.8	3.3	6.3
Discounted Cumulated FCFO	10.7			
TV	63.2			
TV (discounted)	43.5			
Enterprise Value	54.3			
FY22 NFP Adjusted	2.3			
Minorities FY22	-			
Equity Value	52.0			
Current number of shares (mn)	17.6			
Value per share (€)	2.95			

Source: Company data, KT&Partners' elaboration

DCF Sensitivity Analysis

€ million		WACC				
Terminal growth rate		12.7%	12.5%	12.2%	12.0%	11.7%
	1.5%	47.3	48.5	49.7	51.1	52.4
	1.8%	48.3	49.5	50.8	52.2	53.7
	2.0%	49.3	50.6	52.0	53.4	54.9
	2.3%	50.4	51.7	53.2	54.7	56.3
	2.5%	51.5	52.9	54.4	56.0	57.7

Source: Company data, KT&Partners' elaboration

Appendix

Peer Comparison

In order to define ELES' 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 moved toward the Burn-In/System-Level Test market through M&A activities. For peer analysis, we built a sample of six companies:

- **Advantest Corp.:** listed on the Tokyo stock exchange with a market capitalization of €20.3bn, 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 FY22, the company reached revenues of €4bn. It operates through the:
 - Semiconductor and Components Test Systems segment, which offers test systems for the semiconductor and electronic component industries (71.5% of FY21 total sales), with a particular focus on DRAM and on SoC;
 - Mechatronic segment that provides the semiconductor devices handling mechatronic applied products such as testers, handlers, device interfaces, and nanotechnology products (23.1% of FY20 total sales);
 - Others segment that is involved in customer solution, support, and equipment-leasing services;
- **Aehr Test Systems:** listed on NASDAQ with a market capitalization of €36.7mn, 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, test during burn-in systems, test fixtures, and dye carriers. In FY22, the company reached revenues of €62mn;
- **Chroma ATE Inc.:** listed on the Taiwan stock exchange with a market capitalization of €3.4bn, 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 FY22, the company reached revenues of €0.7bn;
- **Teradyne Inc.:** listed on NASDAQ with a market capitalization of €14.7bn, Teradyne Inc. supplies automation equipment for test and industrial applications. In FY22, the company reached revenues of €3bn. It operates through the:
 - Semiconductor Test segment (71% of FY21 total revenue), which designs, manufactures, sells, and supports semiconductor test products and services that are used both for wafer-level and device-package testing;
 - Systems Test segment (13% of FY21 total revenue), which comprises the defense and aerospace, storage test, and production board test business unit;
 - Wireless Test segment (6% of FY21 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 (10% of FY21 total revenue), which supplies collaborative robots that work side by side with production workers.

- **Technoprobe SpA:** listed on Milan Stock Exchange with a market capitalization of €4.4bn, Technoprobe SpA engages in the development, design, and manufacture of probe cards used for testing non-memory or system-on-chip semiconductors. In FY22, the company reached revenues of €0.5bn.
- **FAE Technology SpA:** listed on the Milan Stock Exchange with a market capitalization of €31mn, FAE Technology SpA provides PoC development, industrial design, prototyping and manufactures embedded, and custom electronics products. It is able to develop a solution to validate its effectiveness transformation into an industrial product. The company reached €39mn of revenues in FY22.

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



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