

ELES Positioned to Capitalize on Europe's Defense Spending Wave

ADD | Fair Value: €3.12 (€3.47) | Current Price: €1.54 | Upside: +103%

€ Million	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E	FY27E
Total Revenues	19.7	26.9	33.7	36.0	41.1	45.6	48.6
EBITDA	3.2	3.5	5.1	5.4	6.6	7.8	8.7
margin	16.0%	13.1%	15.0%	14.9%	16.1%	17.1%	17.8%
Net Profit	0.9	0.7	0.8	1.0	1.8	2.5	2.9
margin	4.3%	2.4%	2.4%	2.9%	4.5%	5.5%	6.1%
EPS	0.06	0.05	0.05	0.06	0.10	0.14	0.17
NFP/(Cash)	(3.2)	7.9	3.7	0.4	(1.2)	(3.9)	(8.5)

Source: Company data, KT&Partners' elaboration

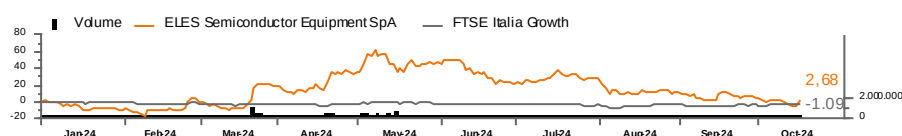
1H24 Results. ELES reported consolidated sales revenues of €15.3mn for 1H24, a 5.0% YoY increase from €14.6mn in 1H23, missing our estimate of €15.7mn by 2.7%. Semiconductor revenues remained flat at €10.1mn despite contractions in the Automotive key market, offset by strong growth in the AI and HPC industrial segments. The expansion of the Group in the A&D segment is positively affecting results, notably offsetting negative trends in other business lines. A&D saw a significant 17.7% YoY increase to €5.2mn, boosted by remarkable public investments and general secular sector growth. Despite higher personnel expenses due to workforce expansion to strengthen the organic structure, EBITDA rose 8.0% YoY to €2.2mn, beating our estimate of €1.8mn by 22.0%, with an increased EBITDA margin by 0.3pp YoY to 14.3%. Net income grew 13.7% to €0.3mn. Finally, NFP improved to €1.9mn from €3.7mn in FY23.

Market Update. ELES's semiconductor business is showing growth due to increasing demand for Generative AI and High-Performance Computing, despite slowdowns in consumer electronics and automotive sectors. The latter, though facing temporary normalization due to delayed electrification plans, still holds strong potential, particularly in the EV market, which heavily relies on semiconductor components, and in which ELES has developed advanced testing solutions critical to its growth. AI and HPC are becoming key drivers, supported by the European Chips Act, aimed at boosting Europe's semiconductor production. Italy is set to benefit from €9bn in investments. ELES is well-positioned through partnerships like with Fraunhofer ENAS and its strategic entry into the Indian market. The A&D sector offers strong long-term growth, driven by increasing production complexity and geopolitical trends. The aircraft manufacturing market, valued at USD 461bn, is set to expand at a 3.7% CAGR., while the space sector is also poised for significant growth, forecasted to reach USD 1.8tn by 2035. In the defense segment, rising defense budgets and geopolitical tensions are driving expansion, with NATO countries increasing military spending toward the 2% GDP target. European defense spending lags global competitors, requiring an estimated €500bn in additional investments to rebuild its industrial capacity. The EU also faces challenges in reducing reliance on non-EU suppliers. Despite these challenges, the European A&D sector holds strong growth potential if it can bolster domestic capabilities and reduce foreign dependence.

Change in Estimates. Following 1H24 market dynamics, we have revised our FY24-27E projections. FY24 revenues estimates are lowered to €36.0mn from €39.4mn, reflecting a slowdown in the Automotive sector, partly offsetting the growth in the Semiconductor line (driven by AI and HPC) and the strong performance in A&D. Medium-term estimates were also adjusted slightly downward, though key growth drivers—including further expansion in A&D, AI and HPC demand, as well as strategic entry into India—continue to support strong growth potential, with revenues at FY27E €48.6mn. EBITDA projections have been reduced due to increased personnel expenses which are expected to support business growth, with FY24E EBITDA at €5.4mn (14.9% margin) and FY27E at €8.7mn (17.8% margin). Finally, NFP is expected to be almost null in FY24E.

Valuation. Our valuation - based on DCF and market multiples method (EV/EBITDA and P/E) - returns an average equity value of €54.9mn or a fair value of €3.12ps, showing potential upside of +103% on current market price.

YTD Relative Performance Chart



Source: Factset

Research Update

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Market Data

Main Shareholders			
Zaffarami Antonio			23.9%
Franceschin Carla			6.2%
Zaffarami Francesca			3.9%
NextStage AM			10.0%
Mkt Cap (€ mn)			27.1
EV (€ mn)			30.8
Shares issued (mn)			17.6
Free Float (%)			56.0%
Market multiples	2023	2024	2025
EV/EBITDA			
ELES	6.1x	5.7x	4.7x
Comps median	30.3x	26.5x	20.0x
ELES vs Median	-80%	-78%	-77%
P/E			
ELES	33.7x	26.1x	14.7x
Comps median	37.7x	37.7x	28.6x
ELES vs Median	-11%	-31%	-49%

Stock Data

52 Wk High (€)	2.47
52 Wk Low (€)	1.14
Avg. Daily Trading 90d	29,791
Price Change 1w (%)	-5.5%
Price Change 1m (%)	2.7%

Key Figures – ELES S.p.A.

Current price (€)	Fair Value (€)		Sector				Free Float (%)
1.54	3.12		Semiconductor Testing				56.0%
Per Share Data	2021A	2022A	2023A	2024E	2025E	2026E	2027E
Total shares outstanding (mn)	13.6	13.8	17.6	17.6	17.6	17.6	17.6
EPS	0.06	0.05	0.05	0.06	0.10	0.14	0.17
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	19.7	26.9	33.7	36.0	41.1	45.6	48.6
EBITDA	3.2	3.5	5.1	5.4	6.6	7.8	8.7
EBIT	1.1	1.2	2.2	2.2	3.6	4.7	5.4
EBT	1.1	1.0	1.3	1.7	3.0	4.1	4.8
Taxes	(0.3)	(0.4)	(0.5)	(0.7)	(1.2)	(1.6)	(1.9)
Tax rate	23%	35%	39%	39%	39%	39%	39%
Net Income	0.9	0.7	0.8	1.0	1.8	2.5	2.9
Net Income attributable to the Group	0.9	0.7	0.8	1.0	1.8	2.5	2.9
Balance Sheet (EUR million)							
Total fixed assets	9.2	16.7	18.3	18.4	18.5	18.6	18.4
Net Working Capital (NWC)	8.0	13.5	14.0	12.3	13.2	13.7	12.9
Provisions	(0.9)	(1.7)	(1.7)	(2.3)	(3.1)	(3.8)	(4.6)
Total Net capital employed	16.3	28.5	30.6	28.4	28.6	28.4	26.7
Net financial position/(Cash)	(3.2)	7.9	3.7	0.4	(1.2)	(3.9)	(8.5)
Group Shareholder's Equity	19.5	20.6	26.9	28.0	29.8	32.3	35.3
Total Shareholder's Equity	19.5	20.6	26.9	28.0	29.8	32.3	35.3
Cash Flow (EUR million)							
Net operating cash flow	2.9	3.1	4.2	4.5	5.2	6.0	6.6
Change in NWC	(1.7)	(5.5)	(0.5)	1.7	(0.8)	(0.5)	0.8
Capital expenditure	(2.4)	(9.5)	(4.2)	(2.9)	(2.9)	(2.9)	(2.9)
Other cash items/Uses of funds	- 0.4	0.5 -	0.4	0.4	0.4	0.4	0.5
Free cash flow	(1.6)	(11.4)	(0.8)	3.6	1.9	3.0	5.0
Enterprise Value (EUR million)							
Market Cap	47.9	29.5	39.3	27.1	27.1	27.1	27.1
Net financial position/(Cash)	(3.2)	7.9	3.7	0.4	(1.2)	(3.9)	(8.5)
Enterprise value	44.7	37.3	43.0	27.5	25.9	23.1	18.5
Ratios							
EBITDA margin	16.0%	13.1%	15.0%	14.9%	16.1%	17.1%	17.8%
EBIT margin	5.4%	4.5%	6.4%	6.2%	8.7%	10.2%	11.1%
Gearing - Debt/equity	-16.3%	38.3%	13.7%	1.4%	-4.0%	-12.1%	-24.2%
Interest cover on EBIT	-4.3%	16.4%	38.6%	24.0%	15.1%	11.5%	10.0%
NFP/EBITDA	-1.0x	2.2x	0.7x	0.1x	-0.2x	-0.5x	-1.0x
ROCE	6.6%	4.2%	7.0%	7.9%	12.5%	16.4%	20.1%
ROE	4.4%	3.2%	3.0%	3.7%	6.2%	7.8%	8.4%
EV/Sales	1.6x	1.1x	0.9x	0.9x	0.7x	0.7x	0.6x
EV/EBITDA	9.7x	8.7x	6.1x	5.7x	4.7x	3.9x	3.6x
P/E	24.5x	32.4x	33.7x	26.1x	14.7x	10.8x	9.2x
Free cash flow yield	-3.7%	-26.5%	-2.0%	8.4%	4.4%	7.1%	11.5%
Growth Rates (%)							
Sales	3.4%	36.5%	25.0%	7.0%	14.2%	10.8%	6.6%
EBITDA	-10.4%	11.2%	43.7%	6.0%	23.3%	18.3%	10.9%
EBIT	-31.2%	12.1%	79.0%	4.5%	59.1%	30.7%	15.3%
Net Income	-49.2%	-23.6%	23.0%	29.3%	77.7%	36.2%	17.3%

Source: Company data, KT&Partners' elaboration

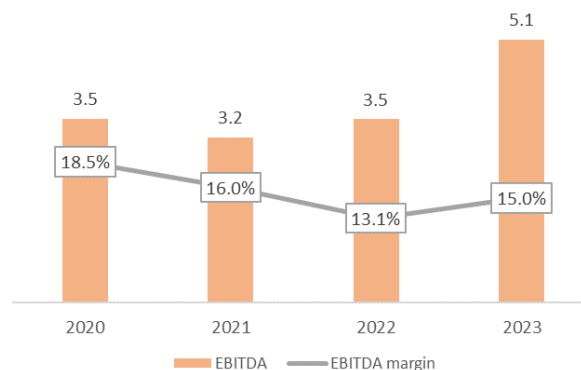
Note: FY20 net income benefitting from a €0.5mn tax advantage related to a property revaluation in accordance with Law Decree 104/202.

Key Charts

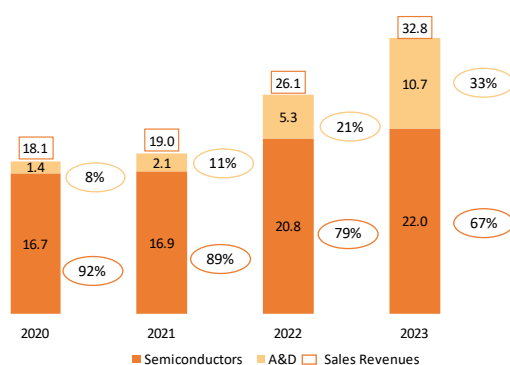
Sales Revenues (€mn)



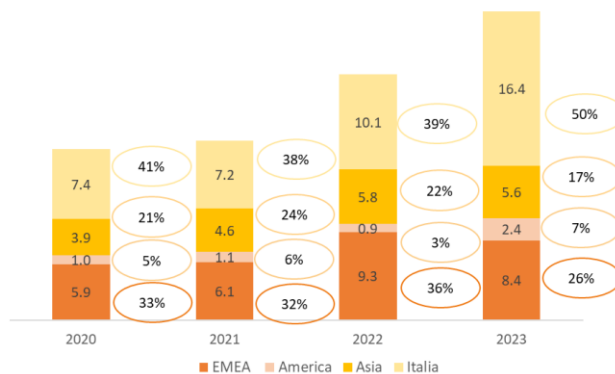
EBITDA and EBITDA Margin (€mn, %)



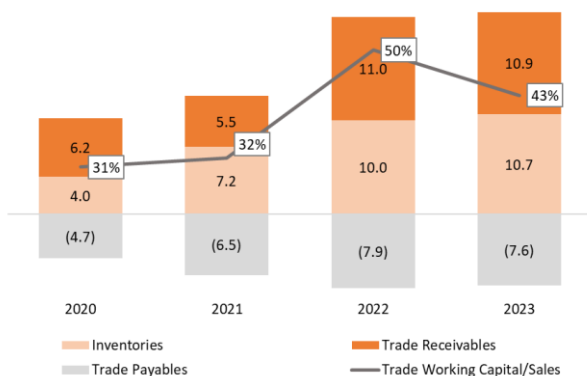
Sales Revenues by Product Line (€mn, %)*



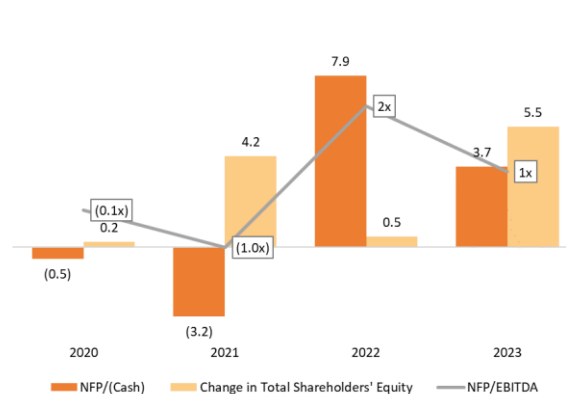
Sales Revenues by Geographic Area (€mn, %)



Trade Working Capital (€mn, %)



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



*Note: 2020 and 2021 A&D includes revenues from ECU, later reclassified among Semiconductors.

Business Update

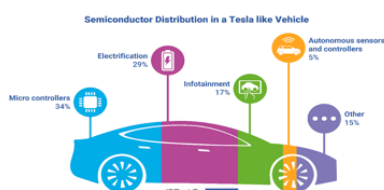
The semiconductor industry remains a cornerstone of ELES's business, with a promising outlook despite short-term challenges. While both the consumer electronics and the automotive sectors show signs of slowing down in the imminent future, the growing demand for Generative AI and High-Performance Computing (HPC) is offsetting ELES's exposure to these adversities.

The Automotive segment is still projected to remain a significant growth driver for ELES, as the semiconductor presence in each vehicle is exponentially increasing. Additionally, favourable Government subsidies and OEM commitments to net-zero emissions contribute to the EV market growth, which features up to 3x more dependence to Semiconductors components relative to traditional vehicles. However, the market is currently undergoing a normalization of the EV sector, with a slowdown in expectations and demand resulting in major global car manufacturers postponing their full-electric plans beyond 2030, as previously appointed. Starting from Mercedes-Benz in February 2024 boosting its combustion line and delaying its full electrification target beyond that year, other sector leaders did the same, including GM's Cadillac, Ford and finally Volvo in September of this year. This will also have an effect on the growth forecasts of ELES, which however has developed a compact and competitive solution for testing Sic&Gan devices (which dominate the growth of the EV sector), either at Wafer (Die) or Package level; and on which it was counting for further growth in the Automotive sector.

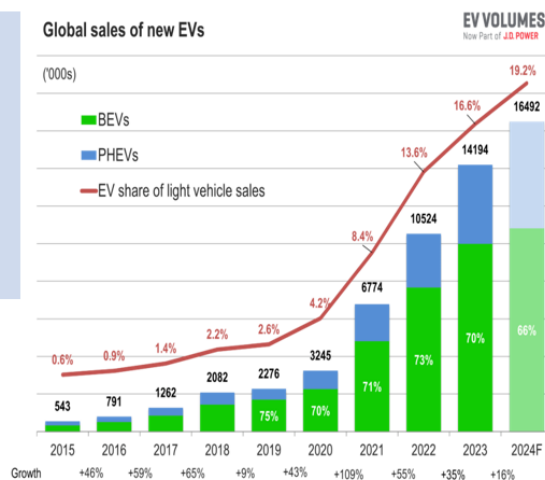
A&D Long-Term Outlook



- **Favourable government policies and subsidies and OEM commitment to net-zero emissions and sustainability targets** contribute to the growing EV penetration
- While Automotive growth is slowing, global EV sales are still increasing, up by 22% in the first half of 2024
- **An EV has 2 to 3 times more semiconductor content in terms of dollar value compared to conventional ICE vehicles.** Power semiconductors account for about 75.0% of this incremental semiconductor content in EVs



Global sales of new EVs



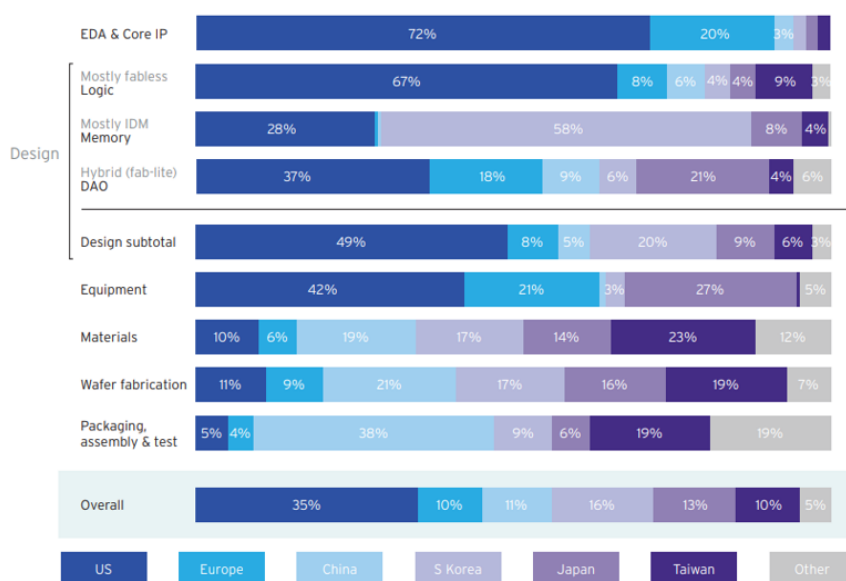
Source: Global EV Sales for 2024, By Roland Irie, EV-Volumes

On an average, the semiconductor content in the car is constantly increasing

Source: ELES Company Presentation

Artificial Intelligence and HPC are thus at the forefront of Semiconductors key growth drivers, resulting in major investments from most global powers. The European Chips Act is particularly crucial for ELES, aiming to strengthen Europe's semiconductor ecosystem by mobilizing approximately €43.0bn in investments. This initiative seeks to expand Europe's production capacity, promote innovation, and reduce its reliance on external suppliers. On this matter, the EU Chips Act is intended to promote a significant growth of the EU market, to reach the intended 20% target of the global supply by 2030, as it is now sitting as of FY23 at USD 57bn (comprising only 10% of the global market).

Supply Chain Regionalization | The Status Quo

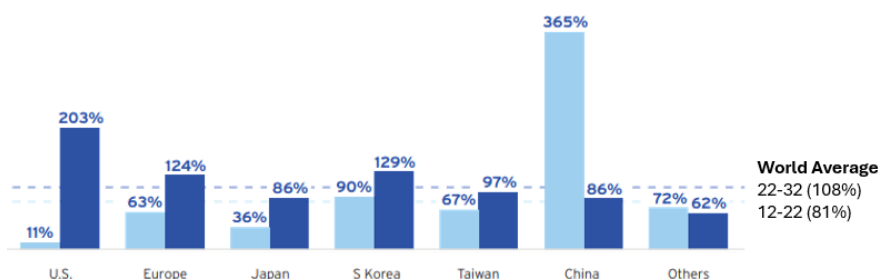


Source: ELES Company Presentation; SIA, 2022.

Italy is set to gain significantly from these plans, with over €9.0bn in planned investments over the next few years issued by major global players, which will bolster the Italian Chip boom. Among these, it is worth mentioning Silicon Box's €3.2bn chip factory in Novara, Piedmont, which is set to begin operations in 2028 and thus solidify Italy's position in the global semiconductor supply chain. Additionally, STMicroelectronics is set to build the world's first silicon carbide facility in Italy, with €5.0bn in projected investments, of which €2.0bn coming from the Italian Government as part of the EU Chips Act. Including microchip giant Aixtron's acquisition of a production site near Turin set to project up to €100mn in initial investments, these investments provide confidence in the Italian Chip market, fostering new opportunities for ELES to generate incremental revenues and ride new verticals of growth.

In line with these developments, a key milestone for ELES is its strategic partnership with Fraunhofer ENAS (Fraunhofer Institute for Electronic Nano Systems), a leader in advanced research and technology. In line with Mario Draghi's recent EU competitiveness report to promote realities located near existing EU excellence centres, ELES has been establishing a financial and professional relationship with one of the European leaders among the innovation and testing labs. This collaboration focuses on enhancing ELES's RETE system, which improves device reliability and reduces costs through precise validation of mission profiles. The partnership will accelerate innovation, enabling ELES to deliver cutting-edge semiconductor testing solutions for increasingly complex chip designs, including applications in quantum computing.

Furthermore, the market is still facing the consequences of supply chain constrictions experienced in the immediate past, which are resulting in inflated inventories and overcapacities. However, the supply chain is currently undergoing a strong regionalization process, fostering a new cycle of long-term investment, which should normalize the market in the future. In particular, the European and US Chips Acts are expected to foster an increase in localized semiconductor capacity between 2022 and 2032 by 203.0% and 124.0%, respectively. Other specialized countries are following in the trend, especially Japan (86.0% increase) and South Korea (129.0%).

Global Semiconductor Capacity Increase by Location (% change; 2012-2022 vs 2022-2023)

Source: Semi, BCG Analysis

On this note, on top of major players as the ones above, India is advancing its ambitious plan to become a key global semiconductor hub by initiating construction of three major semiconductor manufacturing plants, involving investments exceeding \$15bn total. The largest of these facilities, valued at nearly \$11bn, will be built by Tata Electronics in partnership with Taiwan's Powerchip Semiconductor Manufacturing in Gujarat, focusing on technology for sectors such as automotive, consumer electronics, and defense. A second facility, located in Assam with a \$3.26bn investment from Tata Semiconductor Assembly and Test Pvt, will concentrate on advanced semiconductor packaging for the automotive and electric vehicle markets. The third plant, a \$1bn project by Cg Power in collaboration with Japan's Renesas Electronics and Thailand's Stars Microelectronics, will also be situated in Gujarat and will focus on producing chips for consumer, industrial, and power applications. These initiatives underscore India's growing efforts to secure a stronger position in the global semiconductor supply chain. ELES positioned itself to be able to capture this growing trend by entering the Indian market through a new client acquisition and a signed agreement for the distribution of its solutions.

Leveraging Semiconductor Expertise in A&D. ELES SpA has historically been a leader in the semiconductor testing sector, known for its cutting-edge testing RETE methodology that ensures the highest standards of reliability and performance. However, the company has strategically begun to diversify, with a significant entrance into the A&D sector. This transition has been largely facilitated by major acquisitions and the strategic partnerships with major player of the sector (ranging from A&D top tier supplier and Space economy operators), marking a transformative moment for the company as it expands into new markets while capitalizing on its expertise in semiconductor testing.

ELES's proficiency in semiconductor testing, particularly in providing test equipment renowned for its reliability and performance, serves as a key enabler for success in the A&D market – which applications require exceptionally high standards of reliability especially in mission-critical systems, where failure is not an option. ELES's proven technology offers hence a competitive edge in A&D and it's quite a unicum in the European landscape.

A&D Sector Outlook

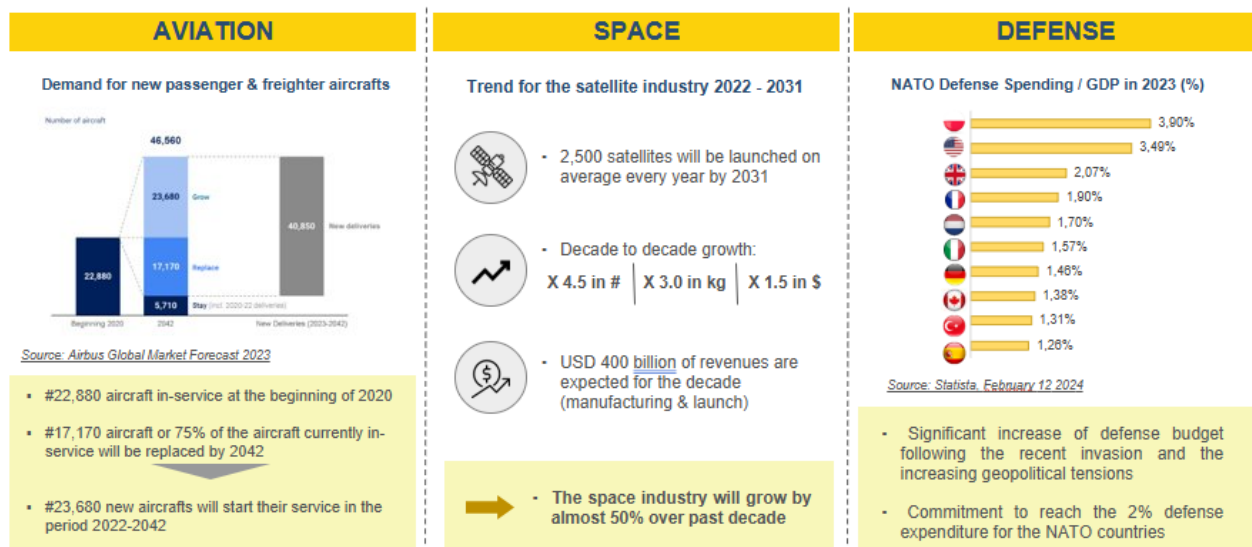
The A&D sector features strong long-term growth potential, driven by consistent secular growth and boosted by current geopolitical trends. As the sector grows and evolves, its solutions feature a greater level of complexity, and thus an even greater need of accuracy and efficiency in the production and testing of their parts. On this regard, ELES positioned itself strategically in favour of capturing each vertical of growth in the sector with its reliable testing solutions.

Focusing on the Aviation segment, the number of new aircrafts expected to enter service between 2022 and 2042 will reach 23,680 units. Additionally, as industry reports estimate 75.0% of the current existing fleet to be replaced by 2042, the global aircraft manufacturing

market is currently valued at USD 461.0bn, expected to grow at a CAGR of 3.7% through 2030. Similarly, the Space segment is enjoying favourable winds of innovations, and it's poised to growth 50% over the previous decade. Particularly, the satellite industry, another key area of growth, is expected to witness a fourfold increase in the number of satellites launched annually by 2031, reaching 2,500 units per year. It's clear the space economy offers substantial growth potential, with the global space market valued at USD 630bn in 2023 and expected to grow at an average of 9.0% per year to USD 1.8tn by 2035. Accounting for the broader economy of new markets and already-existing ancillary segments, the Space industry currently stands at over USD 3tn, with future growth coming from new space-based industrial sectors. Additionally, as space-enabled technologies expand into new industries like pharmaceuticals, semiconductor production, and biotechnologies, traditional space assets will remain critical enablers, further boosting the segment.

As for the Defence sector, it is poised for a significant expansion, driven by rising defence budgets and heightened geopolitical tensions. NATO countries are committed to increase their defence spending, toward the 2% GDP expenditure target, with concrete results already showing in 1H24, showcasing double-digit growth in real terms. Particularly, NATO estimate that 23 out of the 32 Allied countries will reach or exceed the 2% target, compared to only 7 two years prior, and just 3 a decade ago. Overall, total NATO spending increased by 11% YoY in 2024, against just 3% the previous year. The growth was even more pronounced among EU members, who boosted their collective military spending by 19%, against an annual average of 3% between 2014 and 2022.

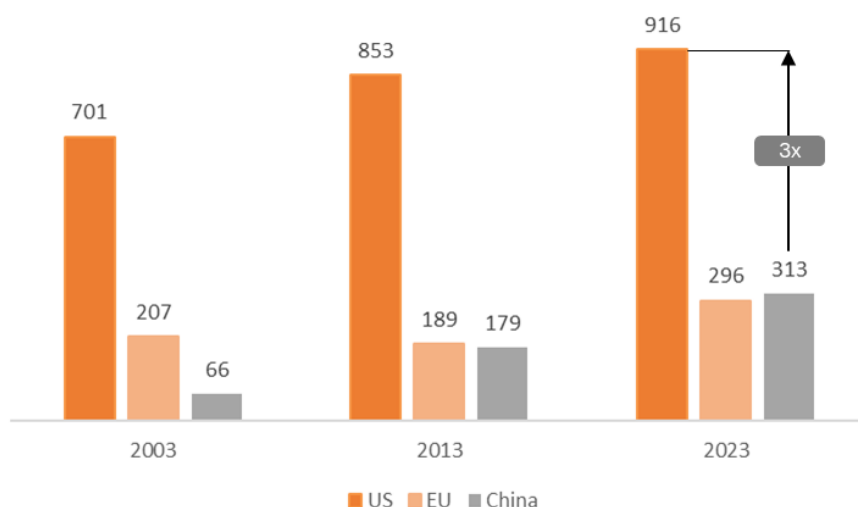
A&D Long-Term Outlook



Source: ELES Company Presentation.

Yet, as highlighted by Mario Draghi in the recent report about the future of EU competitiveness, the European A&D sector faces significant challenges in capturing these drivers of growth and maintaining its competitive edge, largely due to lack of investment in the area compared to the other major global players.

EU Defence Spending compared to the US and China



Source: ELES Company Presentation; SIPRI, 2024.

The EU's cumulative defence spending came in at USD 313bn in 2023, approximately only one-third of that of the United States (USD 916bn), and only slightly above China's (USD 296bn). Following decades of underinvestment, the European Commission estimated €500bn in additional defence investments are needed by European countries in order to restore their industrial capacity, replenish inventories and increase their military position. Worsening the European outlook is also the heavy reliance on non-EU defence solutions. Most of the EU's defence investments are funnelled to external suppliers, especially from the US, Israel, and South Korea, continuing a trend rooted in historical ties from World War II and the Cold War. Between June 2022 and June 2023, approximately 78% of the €75bn of EU's procurement spending was allocated to non-EU suppliers, with 63% going to US-based companies. This heavy reliance comes at a time when the US market remains largely closed to European companies, further complicating the EU's efforts to regain industrial autonomy.

As for the Space segment, Europe has seen its leadership in areas such as commercial launchers and geostationary satellites diminish, losing ground in space-related activities. The EU is also increasingly dependent on high-end electronics components and detectors, leading to increased dependence on foreign technology. For instance, Europe had to rely on US SpaceX rockets for its Galileo satellite program. While the EU retains technical strength in areas like Earth observation and navigation, it lags behind the US in rocket propulsion, mega-constellations, and satellite applications. Despite their strategic dependency issues to foreign economies, the EU space industry offers substantial growth potential for EU-based companies, as the space sector holds immense opportunities for innovation and growth, particularly if it can bolster its domestic capabilities and reduce reliance on non-EU solutions.

Financial Results 1H24

ELES consolidated sales revenues stood at €15.3mn, featuring a 5.0% increase YoY from €14.6mn in 1H23, fairly in line with our forecasted estimate of €15.7mn (-2.7%). These consolidated revenues comprise €4.6mn (30% of the total) related to the acquisition of CBL Electronics in October 2022, highlighting the consistent benefits the Group has obtained from the deal.

Focusing on revenues breakdown by business lines:

- Revenues from the Semiconductor remained flat at €10.1mn (-0.5% YoY), highlighting the ability of the Group to outperform both reference markets of Global ICs Automated Test Equipment and the Burn-In segment, which experienced a contraction of 4.0% and 12.0% YoY, respectively.

Supply Chain Regionalization | The Status Quo

Worldwide IC Automated Test Equipment (USD mn)	1H23	1H24	1H23 vs 1H24
Memory Testers	0.6	0.6	9.0%
Non-Memory Testers	2.0	1.8	-9.0%
System Level Test	0.2	0.2	18.0%
Burn-in Test	0.2	0.1	-12.0%
Total	2.9	2.8	-4.0%

Source: Yole Group, KT&Partners' elaboration

Results remaining flat are proof of the managerial effort in providing a countercyclical offer based on continuous improved solutions to clients, counterbalancing contractions and expansions of corresponding exit markets. In particular, the Semiconductors line experienced a significant contraction of the Automotive end market, featuring a strong decline of 26.0% YoY, resulting from an abrupt and unexpected slowdown in the market in a context of persistent inflation, culminating in revisions of green transition plans by major automotive groups. This decline is however counterbalanced by a consistent growth in the Industrial end market, featured by a strong demand for AI and High-Performance Computing (HPC) devices. The overall Semiconductor performance comprises an 11.0% decline YoY in Test Systems, counterbalanced by a significant growth in Test Applications, highlighting ELES competitive advantage featured by an anticyclical offer.

- Revenues from the Aerospace & Defense (A&D) line feature a strong positive +17.7% YoY increase, reaching €5.2mn in 1H24 from €4.4mn in 1H23. Boosted by CBL Electronics and Campera Electronic Systems results, by national and European public investments, as well as by strong macroeconomic tailwinds that boost the sector, A&D accounts for 34.0% of Total Revenues of the Group as of 1H24.

It is relevant to highlight the crucial positive impact on Total Revenues of repeated orders by loyal customer of the Group, which confirms the success of ELES's solutions on the retention ratio of its customer base.

Export still holds a substantial share of 44.8% of Revenues from Sales, although 12.4pp in decline YoY from 57.2% in 1H23. The contraction is mostly attributable to both EMEA and Asia ELES' reference markets, which saw a decline in revenues of 23.0% and 27.7%, respectively. On the other hand, America is the only macro-region which experienced a strong 61.8% growth, reaching 7.2% of Total Revenues in 1H24 from 4.7% in 1H23. Despite the geographical

decline in Asia, it is relevant to highlight the entrance of the Group in the Indian market with the acquisition of a new client in April 2024. Focusing on the potential upside for the semiconductors business in India, the Group also signed a distribution agreement of its solution in with Manakin Enterprise Private Limited.

Gross profit in 1H24 came at €10.8mn, experiencing a positive 7.9% increase YoY from €10.0mn in 1H23, also beating our forecasted estimate of €10.5mn by 3.0%. On profitability, EBITDA reached €2.2mn in 1H24, following an 8.0% YoY increase from €2.1mn in 1H23, featuring an improved marginality of 0.3pp on EBITDA margin, from 14.0% in 1H23 to 14.3% in 1H24. EBITDA also beat our estimate of €1.8mn in 1H24E (+22.0%). Enhanced marginality results from improved volumes from sales YoY, whose positive impact is however lessened by an increase in OPEX, linked mainly to Personnel Expenses, which reached -€4.7mn in 1H24 (+9.5% YoY) fully weighing on 1H24 results, following the managerial decision of supporting the personnel pricing power against inflation during 2023, but mostly resulting from the strengthening of the work force to support the organic growth of the business, which totals as of 1H24 196 personnel (183 in 1H23), counting 1 new managerial figure and a +19 net increase of newly hired employees, against a -2 net decrease of workers and -5 apprentices.

D&A increased from €1.2mn in 1H23 to €1.5mn in 1H24 (+25.9%) due to greater Capex. The Group also experienced a decrease of 31.7% YoY in Net Financial Expenses linked to an improvement in financial income, despite unfavourable EURIBOR rate movements YoY, as well as an improved EUR/USD exchange rate. Finally, Net Income came in at €0.3mn, featuring a positive 13.7% increase YoY from €0.2mn in 1H23, also significantly improving on our estimate of €0.2mn in 1H24E (+45.1%).

On the Balance Sheet side, NFP decreased to €1.9mn in 1H24 from €3.7mn in FY23, thanks mainly to a positive €3.8mn free cash flow from operations, as well as partially from the decrease in Net Working Capital requirements linked to lower deferred tax assets.

Change in Estimates

Following the 1H24 evolving market dynamics and consequential financial results, we have revised our FY24-27E projections for ELES. For FY24E, we have lowered our topline revenue estimate to €36.0mn from the previous €39.4mn, reflecting the sudden slowdown experienced by the Automotive sector in regard to the EV transition, and thus partially offsetting the positive growth trajectories experienced by the Semiconductor business line linked to AI and High-Performance Computing, as well as the significant positive impact of the A&D sector.

We have revised the medium-term outlook consistently, with a fairly small downward revision of our estimates for future years as well, resulting from the slowdown in the Automotive sector. However, our projections remain strong, supported by several key growth drivers:

- The Group's expansion in the A&D sector continues to diversify its revenue streams as well as provide robust growth opportunities, enabling the company to capture the secular growth of the sector, currently boosted by geopolitical trends;
- The increasing demand for AI and High-Performance Computing (HPC) solutions is fuelling significant momentum in the Semiconductor business line, positioning the company favourably in these high-growth markets;
- Finally, the company's strategic expansion in India in 2024 is opening up new avenues for growth, as it taps into one of the fastest-growing economies with increasing technological demand, and particularly, growing investments to increase both design and manufacturing capacity for Semiconductors. A potential sustained growth, which ELES is expected to capture through to new client acquisition.

These factors collectively help mitigate the impact of the Automotive sector's deceleration and sustain long-term growth prospects, although slightly lowered from our previous forecasts. Particularly, we revised the topline growth expectations only slightly downward, with FY25E projections of total revenues expected to come in at €41.1mn, decreasing from €45.7mn, and finally reaching €48.6mn in FY27E, down from €49.7mn in our previous estimate for the year. This results in an only slightly lower 2023-27E CAGR of 9.6% (vs 10.2% previously).

At the profitability level, we included the impact of increasing Personnel Expenses, as ELES underwent an expansion of the workforce aimed at supporting the company's organic growth. This strategic move reflects the company's commitment to reinforce its capabilities to drive long-term growth. As a result, we have revised our profitability estimates downward, now projecting FY24E EBITDA at €5.4mn (with a 14.9% margin), down from the previous estimate of €6.0mn (15.1% margin). Despite the initial decrease in FY24E, we expect ELES to gradually improve its profitability, forecasting FY27E EBITDA at €8.7mn at a 17.8% margin (vs our previous forecast of €9.0mn at a 18.0% margin). At the bottom line, we now estimate lower FY24E Net Income at €1.0mn (vs the previous projection of €1.4mn), growing to €2.9mn by FY27E, against our former forecasted estimate of €3.1mn, at a 2023-27E CAGR of 38.4%.

On the balance sheet, projected changes in the net financial position (NFP) reflect a strengthened outlook on free cash flow from operations, thanks to improved marginality and lower NWC requirements resulting from efficiencies in Trade Receivables collection and, mainly, lowered inventories, which are no longer affected by supply chain constrictions. We now expect FY24E PFN to be €0.4mn (vs €1.0mn previously), improving to €1.2mn net cash in FY25E, although growing slower than previously expected in future years, reaching €8.5mn net cash in FY27E (vs €10.4 net cash previously).

Change in Estimates

€ mn	2023	Change	2024E	2024E	Change	2025E	2025E	Change	2026E	2026E	Change	2027E	2027E	Change	CAGR	CAGR
	Actual		Old	New		Old	New		Old	New		Old	New		2023-27 Old	2023-27 New
Total Revenues	33.7	0.3%	39.4	36.0	-8.6%	45.7	41.1	-10.0%	46.8	45.6	-2.6%	49.7	48.6	-2.2%	10.2%	9.6%
YoY Change (%)	25.0%		17.1%	7.0%		16.0%	14.2%		2.4%	0.0		6.2%	6.6%			
EBITDA	5.1	5.5%	6.0	5.4	-10.2%	7.4	6.6	-11.1%	8.1	7.8	-3.7%	9.0	8.7	-3.3%	15.4%	14.4%
YoY Change (%)	43.7%		18.1%	6.0%		24.4%	23.3%		9.3%	18.3%		10.5%	10.9%			
EBITDA Margin	15.0%	0.7%	15.1%	14.9%	-0.3%	16.2%	16.1%	-0.2%	17.3%	17.1%	-0.2%	18.0%	17.8%	-0.2%		
EBIT	2.2	-10.3%	2.8	2.2	-20.5%	4.4	3.6	-18.0%	5.0	4.7	-5.9%	5.7	5.4	-5.1%	27.5%	25.8%
YoY Change (%)	79.0%		31.4%	4.5%		54.2%	59.1%		13.9%	30.7%		14.4%	15.3%			
Net Income	0.8	-35.6%	1.4	1.0	-25.3%	2.3	1.8	-20.5%	2.7	2.5	-6.6%	3.1	2.9	-5.7%	40.4%	38.4%
YoY Change (%)	23.0%		73.1%	29.3%		67.0%	77.7%		15.9%	36.2%		16.1%	17.3%			
NFP	3.7	0.0	1.0	0.4	(0.6)	0.0	(1.2)	(1.2)	(5.1)	(3.9)	1.2	(10.4)	(8.5)	1.9		

Source: KT&P's estimates, Company Data

Valuation

Following ELES' future financials projections, we have carried out our valuation using multiple and DCF methods. Our valuation is based on 17.6mn shares and is the result of:

- **EV/EBITDA and P/E multiples:** with a 20% liquidity discount, which returns a value of €4.05ps;
- **DCF analysis** based on WACC of 13.0% and 2.0% perpetual growth, which returns a value of €2.18ps.

The average of the two methods yields a fair value of €3.12ps.

Valuation Recap		
	Equity Value €mn	Value per share €
EV/EBITDA	102.45 €	5.81 €
P/E	40.36 €	2.29 €
Average Multiple	71.41 €	4.05 €
DCF	38.41 €	2.18 €
Average	54.91 €	3.12 €

Source: FactSet, KT&Partners' elaboration

Market Multiples Valuation

Following our comps analysis, we evaluate the company by using the 2024–26 EV/EBITDA and P/E market multiples of the peer sample. Our valuation also includes a 20% liquidity/size discount and considers our estimates of ELES' EBITDA and Net income for 2024, 2025 and 2026.

Peer Comparison – Market Multiples 2023–26

Company Name	Exchange	Market Cap	EV/SALES 2023	EV/SALES 2024	EV/SALES 2025	EV/SALES 2026	EV/EBITDA 2023	EV/EBITDA 2024	EV/EBITDA 2025	EV/EBITDA 2026	P/E 2023	P/E 2024	P/E 2025	P/E 2026
Advantest Corp.	Tokyo	37,894	11.7x	9.7x	8.2x	7.3x	n.m	34.2x	24.2x	20.4x	n.m	n.m	37.1x	30.3x
Aehr Test Systems	NASDAQ	387	5.9x	5.5x	4.2x	3.1x	34.0x	n.a.	n.a.	n.a.	16.8x	47.4x	30.3x	17.1x
Chroma Ate Inc.	Taiwan	4,986	8.8x	8.0x	6.7x	6.1x	30.3x	26.5x	20.3x	18.2x	42.4x	33.7x	26.9x	23.6x
Teradyne, Inc.	NASDAQ	19,048	7.6x	7.3x	5.9x	4.9x	31.9x	29.6x	20.0x	15.9x	46.2x	41.8x	26.9x	19.7x
Technoprobe SpA	Milan	3,959	8.1x	6.0x	5.0x	4.3x	26.9x	23.4x	15.5x	12.2x	37.7x	n.m	32.8x	24.1x
Fae Technology S.P.A	Milan	66	1.2x	0.9x	0.8x	0.7x	11.5x	8.4x	6.9x	5.6x	20.1x	11.7x	9.2x	n.a.
Average peer group		11,057	7.2x	6.2x	5.2x	4.4x	26.9x	24.4x	17.4x	14.5x	32.6x	33.6x	27.2x	23.0x
Median peer group		4,472	7.8x	6.6x	5.5x	4.6x	30.3x	26.5x	20.0x	15.9x	37.7x	37.7x	28.6x	23.6x
ELES S.p.A.	Milan	27	0.9x	0.9x	0.7x	0.7x	6.1x	5.7x	4.7x	3.9x	33.7x	26.1x	14.7x	10.8x

Source: FactSet, KT&Partners' Elaboration

EV/EBITDA Multiple Valuation

Multiple Valuation (€mn)	2024E	2025E	2026E
EV/EBITDA Comps	26.5x	20.0x	15.9x
ELES S.p.A. EBITDA	5.4	6.6	7.8
Enterprise value	142.0	132.2	123.9
Average Enterprise Value		132.7	
<i>Liquidity/Size Discount</i>		20%	
Enterprise Value Post-Discount		106.2	
Eles S.p.A. FY23 NFP		3.7	
Minorities FY22		0.0	
Equity Value		102.5	
<i>Number of shares (mn)</i>		17.6	
Value per share		5.8	

Source: FactSet, KT&Partners' Elaboration

P/E Multiple Valuation

Multiple Valuation (€mn)	2024E	2025E	2026E
P/E Comps	37.7x	28.6x	23.6x
ELES S.p.A. Net Income	1.0	1.8	2.5
Equity Value	39.2	52.8	59.4
Average Equity Value		50.5	
<i>Liquidity/Size Discount</i>		20%	
Equity Value Post-Discount		40.4	
<i>Number of shares (mn)</i>		17.6	
Value per Share €		2.3	

Source: FactSet, KT&Partners' Elaboration

DCF Valuation

We have also performed our valuation using a four-year DCF model, based on a 14.6% cost of equity, 5.0% cost of debt and a target capital structure with 17.8% debt (Damodaran for the semiconductor equipment sector). The cost of equity is a function of the risk-free rate of 3.65% (Italian 10y BTP), 5.2% equity risk premium (Damodaran’s country risk premium for Italy) and a premium for size at 4.4%. We therefore obtained 13.0% WACC.

We discounted 2024E–27E 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	2024E	2025E	2026E	2027E
EBIT	2.2	3.6	4.7	5.4
Taxes	(0.9)	(1.4)	(1.8)	(2.1)
D&A	2.8	2.7	2.8	3.0
Change in Net Working Capital	1.7	(0.8)	(0.5)	0.8
Net Operating Cash Flow	6.5	4.8	5.9	7.8
Capex	(2.9)	(2.9)	(2.9)	(2.9)
FCFO	3.6	1.9	3.0	5.0
g	2.0%			
Wacc	13.0%			
Discounted Cumulated FCFO	10.9			
TV	46.2			
TV (discounted)	31.2			
Enterprise Value	42.1			
FY23 NFP	3.7			
Minorities FY23	-			
Equity Value	38.4			
Current number of shares (mn)	17.6			
Value per share (€)	2.18			

Source: Company data, KT&Partners’ elaboration

DCF Sensitivity Analysis						
Terminal growth rate	€ million	WACC				
		13.5%	13.2%	13.0%	12.7%	12.5%
	1.5%	35.2	36.0	36.9	37.8	38.8
	1.8%	35.9	36.7	37.6	38.6	39.6
	2.0%	36.6	37.5	38.4	39.4	40.5
	2.3%	37.3	38.2	39.2	40.3	41.4
	2.5%	38.0	39.0	40.1	41.2	42.3

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 €24.6bn, 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 FY23, the company reached revenues of €3.1bn. It operates through the:
 - Semiconductor and Components Test Systems segment, which offers test systems for the semiconductor and electronic component industries, 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;
 - Others segment that is involved in customer solution, support, and equipment-leasing services;
- **Aehr Test Systems:** listed on NASDAQ with a market capitalization of €356mn, 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 FY23, the company reached revenues of €60mn;
- **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 FY23, the company reached revenues of €0.6bn;
- **Teradyne Inc.:** listed on NASDAQ with a market capitalization of €20.6bn, Teradyne Inc. supplies automation equipment for test and industrial applications. In FY23, the company reached revenues of €2.5bn. It operates through the:
 - Semiconductor Test segment, 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, which comprises the defense and aerospace, storage test, and production board test business unit;
 - Wireless Test segment 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, which supplies collaborative robots that work side by side with production workers.

- **Technoprobe SpA:** listed on Milan Stock Exchange with a market capitalization of €5.8bn, Technoprobe SpA engages in the development, design, and manufacture of probe cards used for testing non-memory or system-on-chip semiconductors. In FY23, the company reached revenues of €0.4mn.
- **FAE Technology SpA:** listed on the Milan Stock Exchange with a market capitalization of €70mn, 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 effective transformation into an industrial product. The company reached €61mn of revenues in FY23.

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