

## 1H24 Preliminary Results: A&amp;D Boost Revenues Growth

ADD | Fair Value: €3.47 (€3.47) | Current Price: €1.64 | Upside: +112.23%

| € Million      | FY21A | FY22A | FY23A | FY24E | FY25E | FY26E | FY27E  |
|----------------|-------|-------|-------|-------|-------|-------|--------|
| Total Revenues | 19.7  | 26.9  | 33.7  | 39.4  | 45.7  | 46.8  | 49.7   |
| EBITDA         | 3.2   | 3.5   | 5.1   | 6.0   | 7.4   | 8.1   | 9.0    |
| margin         | 16.0% | 13.1% | 15.0% | 15.1% | 16.2% | 17.3% | 18.0%  |
| Net Profit     | 0.9   | 0.7   | 0.8   | 1.4   | 2.3   | 2.7   | 3.1    |
| margin         | 4.3%  | 2.4%  | 2.4%  | 3.5%  | 5.1%  | 5.8%  | 6.3%   |
| EPS            | 0.06  | 0.05  | 0.05  | 0.08  | 0.13  | 0.15  | 0.18   |
| NFP/(Cash)     | (3.2) | 7.9   | 3.7   | 1.0   | 0.0   | (5.1) | (10.4) |

Source: Company data, KT&amp;Partners' elaboration

**1H24 Preliminary Results.** In 1H24, ELES reported consolidated sales revenues of €15.3mn, marking a 5.4% YoY increase from €14.6mn in 1H23 and almost aligned to our estimates of €15.7mn (-2.3%). This growth reflects the company's resilience amid challenging market conditions, particularly within the semiconductor industry. Revenues from the Semiconductor Division remained stable at €10.1mn, unchanged from 1H23, but slightly below our estimate of €10.6mn (-3.9%) - With the semiconductor market experiencing a broader decline, driven by a 26% contraction in the automotive end-market, ELES successfully offset this slowdown thanks to the dynamic demand in the AI, High-Performance Computing (HPC), and Data Server sectors. In particular, the Industrial end-market saw a substantial 170% growth, which played a critical role in balancing the overall performance of this division. The Test Applications Product Line, a key differentiator for ELES, contributed with €6.8mn, up 6.0% YoY from €6.4mn in 1H23, and this growth mitigated the decline in the Test Systems line (which fell by 11%) reinforcing the anti-cyclical nature of the Group's offerings. The Aerospace & Defense (A&D) Division recorded robust growth, with revenues increasing by 17.6% YoY to €5.2mn from €4.4mn in 1H23 and aligning with our estimate of €5.1mn (+1.1%). This division benefited from a more favorable market environment and now accounts for 34% of total revenues, highlighting its growing importance within the Group's portfolio. Moreover, despite the market weakness in 1H24, ELES engaged in intense commercial activity, securing numerous orders that are expected to significantly contribute to revenue growth in 2H24 and FY25.

## 1H24 Sales Revenues vs. KT&amp;Partners' estimates

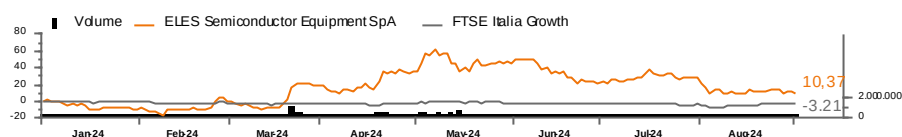
| € Millions            | 1H23A       | 1H24A       | YoY         | 1H24E       | A vs E       | FY24E       |
|-----------------------|-------------|-------------|-------------|-------------|--------------|-------------|
| <b>Semiconductors</b> | 10.1        | 10.1        | 0.0%        | 10.6        | -3.9%        | 25.4        |
| Of which Applications | 6.4         | 6.8         | 6.0%        | n.d.        | n.a.         | n.d.        |
| <b>A&amp;D</b>        | 4.4         | 5.2         | 17.6%       | 5.1         | 1.1%         | 13.6        |
| <b>Total</b>          | <b>14.6</b> | <b>15.3</b> | <b>5.4%</b> | <b>15.7</b> | <b>-2.3%</b> | <b>39.0</b> |

Source: Company data, KT&amp;Partners' elaboration

**Estimates Confirmed.** Following the 1H24 preliminary results, we confirm our latest estimates as of 11<sup>th</sup> June, 2024 waiting for the 1H24 consolidated results on 27<sup>th</sup> September, 2024. Revenue expectations for FY24E are set at €39.4, representing a +17.1% YoY growth from FY23 revenues – foreseeing a CAGR2023-2027E of 10.2% and reaching €49.7mn by the end of FY27. We foresee FY24E EBITDA estimate at €6.0mn, reflecting the uncertain macroeconomic scenario, and we anticipate a slight improvement in profitability, with margin reaching 18% by FY27E. On Balance sheet side we forecast FY24E NFP at €1.0mn thanks to optimized TWC management, to finally reach by FY27E a net cash position of €10.4mn.

**Valuation.** Our valuation – based on both DCF and multiples methods – returns an equity value of €61.1mn or a fair value of €3.47ps, implying a +112.23% on the current market price.

## YTD Relative Performance Chart



## Research Update

September 4<sup>th</sup>, 2024 – 7.00 h

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## Market Data

|                           |             |             |             |
|---------------------------|-------------|-------------|-------------|
| <b>Main Shareholders</b>  |             |             |             |
| Zaffarami Antonio         |             |             | 23.9%       |
| Franceschin Carla         |             |             | 6.2%        |
| Zaffarami Francesca       |             |             | 3.9%        |
| NextStage AM              |             |             | 10.0%       |
| <b>Mkt Cap (€ mn)</b>     |             |             | 28.8        |
| <b>EV (€ mn)</b>          |             |             | 32.5        |
| <b>Shares issued (mn)</b> |             |             | 17.6        |
| <b>Free Float (%)</b>     |             |             | 56.0%       |
| <b>Market multiples</b>   | <b>2023</b> | <b>2024</b> | <b>2025</b> |
| <b>EV/EBITDA</b>          |             |             |             |
| ELES                      | 6.4x        | 5.5x        | 4.4x        |
| Comps median              | 33.8x       | 28.8x       | 19.8x       |
| ELES vs Median            | -81%        | -81%        | -78%        |

## P/E

|                |       |       |       |
|----------------|-------|-------|-------|
| ELES           | 35.9x | 20.7x | 12.4x |
| Comps median   | 32.8x | 45.1x | 31.1x |
| ELES vs Median | 9%    | -54%  | -60%  |

## Stock Data

|                        |        |
|------------------------|--------|
| 52 Wk High (€)         | 2.47   |
| 52 Wk Low (€)          | 1.14   |
| Avg. Daily Trading 90d | 51,121 |
| Price Change 1w (%)    | -5.5%  |
| Price Change 1m (%)    | 9.4%   |

## Key Figures – ELES S.p.A.

| Current price (€)                    | Fair Value (€) |        | Sector                |       |       |        | Free Float (%) |
|--------------------------------------|----------------|--------|-----------------------|-------|-------|--------|----------------|
| 1.64                                 | 3.47           |        | 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                  | 0.08  | 0.13  | 0.15   | 0.18           |
| 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                  | 39.4  | 45.7  | 46.8   | 49.7           |
| EBITDA                               | 3.2            | 3.5    | 5.1                   | 6.0   | 7.4   | 8.1    | 9.0            |
| EBIT                                 | 1.1            | 1.2    | 2.2                   | 2.8   | 4.4   | 5.0    | 5.7            |
| EBT                                  | 1.1            | 1.0    | 1.3                   | 2.3   | 3.8   | 4.4    | 5.1            |
| Taxes                                | (0.3)          | (0.4)  | (0.5)                 | (0.9) | (1.5) | (1.7)  | (2.0)          |
| Tax rate                             | 23%            | 35%    | 39%                   | 39%   | 39%   | 39%    | 39%            |
| Net Income                           | 0.9            | 0.7    | 0.8                   | 1.4   | 2.3   | 2.7    | 3.1            |
| Net Income attributable to the Group | 0.9            | 0.7    | 0.8                   | 1.4   | 2.3   | 2.7    | 3.1            |
| 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                  | 13.4  | 15.3  | 13.7   | 12.4           |
| Provisions                           | (0.9)          | (1.7)  | (1.7)                 | (2.4) | (3.2) | (4.0)  | (4.7)          |
| Total Net capital employed           | 16.3           | 28.5   | 30.6                  | 29.3  | 30.7  | 28.3   | 26.1           |
| Net financial position/(Cash)        | (3.2)          | 7.9    | 3.7                   | 1.0   | 0.0   | (5.1)  | (10.4)         |
| Group Shareholder's Equity           | 19.5           | 20.6   | 26.9                  | 28.3  | 30.6  | 33.3   | 36.5           |
| Total Shareholder's Equity           | 19.5           | 20.6   | 26.9                  | 28.3  | 30.6  | 33.3   | 36.5           |
| Cash Flow (EUR million)              |                |        |                       |       |       |        |                |
| Net operating cash flow              | 2.9            | 3.1    | 4.2                   | 4.9   | 5.7   | 6.2    | 6.7            |
| Change in NWC                        | (1.7)          | (5.5)  | (0.5)                 | 0.6   | (2.0) | 1.6    | 1.3            |
| 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)                 | 3.0   | 1.3   | 5.4    | 5.7            |
| Enterprise Value (EUR million)       |                |        |                       |       |       |        |                |
| Market Cap                           | 47.9           | 29.5   | 39.3                  | 28.8  | 28.8  | 28.8   | 28.8           |
| Net financial position/(Cash)        | (3.2)          | 7.9    | 3.7                   | 1.0   | 0.0   | (5.1)  | (10.4)         |
| Enterprise value                     | 44.7           | 37.3   | 43.0                  | 29.8  | 28.8  | 23.8   | 18.4           |
| Ratios                               |                |        |                       |       |       |        |                |
| EBITDA margin                        | 16.0%          | 13.1%  | 15.0%                 | 15.1% | 16.2% | 17.3%  | 18.0%          |
| EBIT margin                          | 5.4%           | 4.5%   | 6.4%                  | 7.2%  | 9.5%  | 10.6%  | 11.4%          |
| Gearing - Debt/equity                | -16.3%         | 38.3%  | 13.7%                 | 3.5%  | 0.0%  | -15.2% | -28.5%         |
| Interest cover on EBIT               | -4.3%          | 16.4%  | 38.6%                 | 19.1% | 12.4% | 10.9%  | 9.5%           |
| NFP/EBITDA                           | -1.0x          | 2.2x   | 0.7x                  | 0.2x  | 0.0x  | -0.6x  | -1.2x          |
| ROCE                                 | 6.6%           | 4.2%   | 7.0%                  | 9.6%  | 14.2% | 17.5%  | 21.8%          |
| ROE                                  | 4.4%           | 3.2%   | 3.0%                  | 4.9%  | 7.6%  | 8.1%   | 8.6%           |
| EV/Sales                             | 1.6x           | 1.2x   | 1.0x                  | 0.8x  | 0.7x  | 0.7x   | 0.7x           |
| EV/EBITDA                            | 10.3x          | 9.2x   | 6.4x                  | 5.5x  | 4.4x  | 4.0x   | 3.6x           |
| P/E                                  | 26.1x          | 34.5x  | 35.9x                 | 20.7x | 12.4x | 10.7x  | 9.2x           |
| Free cash flow yield                 | -3.7%          | -26.5% | -2.0%                 | 7.0%  | 3.1%  | 12.6%  | 13.2%          |
| Growth Rates (%)                     |                |        |                       |       |       |        |                |
| Sales                                | 3.4%           | 36.5%  | 25.0%                 | 17.1% | 16.0% | 2.4%   | 6.2%           |
| EBITDA                               | -10.4%         | 11.2%  | 43.7%                 | 18.1% | 24.4% | 9.3%   | 10.5%          |
| EBIT                                 | -31.2%         | 12.1%  | 79.0%                 | 31.4% | 54.2% | 13.9%  | 14.4%          |
| Net Income                           | -49.2%         | -23.6% | 23.0%                 | 73.1% | 67.0% | 15.9%  | 16.1%          |

Source: Company data, KT&amp;Partners' elaboration

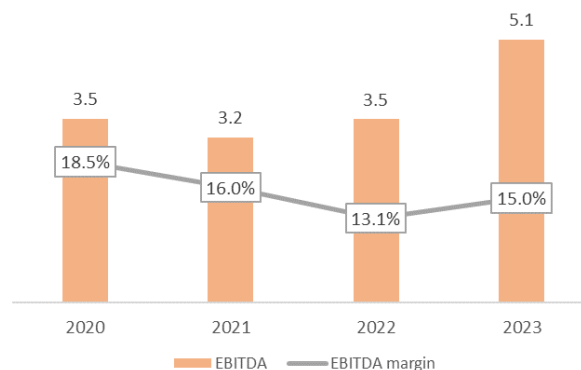
Note: FY20 net income benefitting from a €0.5mn tax advantage related to a property revaluation in accordance with Law Decree 104/202.

## Key Charts

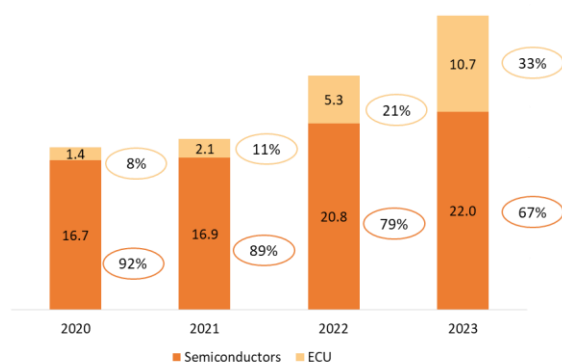
Sales Revenues (€mn)



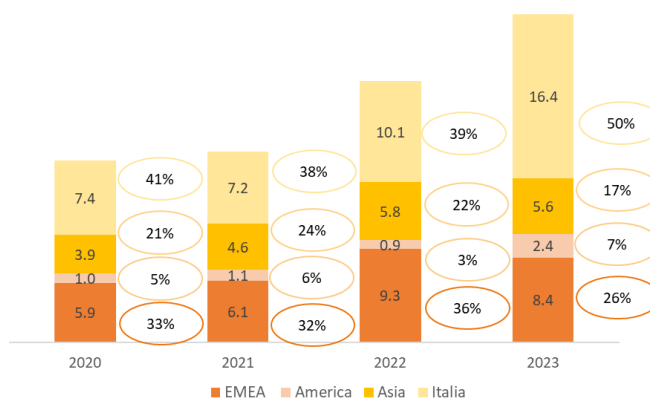
EBITDA and EBITDA Margin (€mn, %)



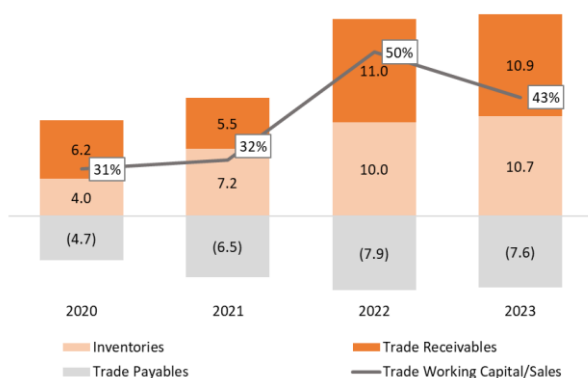
Sales Revenues by Product Line (€mn, %)\*



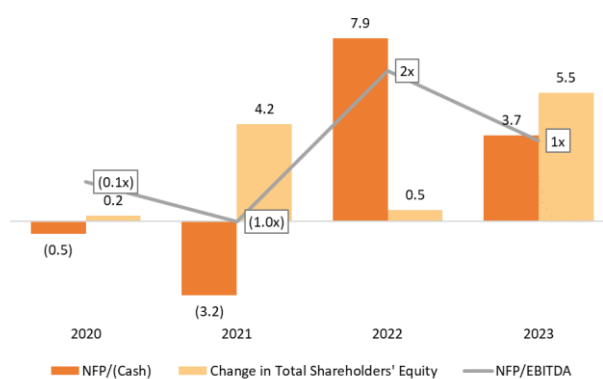
Sales Revenues by Geographic Area (€mn, %)



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.

## 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

- **Consolidation of the partnership with ICE Inc.** In July 2024, Semiconductor Reliability Laboratory ICE Inc., a leading facility in Silicon Valley, has renewed its choice of the ELES ART hpH tester. This tester is used for qualifying ultra-high-power chips, a market segment experiencing rapid growth due to advancements in AI. ICE Inc. has placed a new order, strengthening the partnership initially established in June 2023. This collaboration highlights the increasing interest in ELES' High Power solutions.
- **Application for a new patent.** In March 2024, ELES filed a patent application for Wafer-level Testing solution for devices in SiC&Gan technology, for which strong growth is expected in the coming years, demonstrating its commitment to establish a strong intellectual property position.
- **ELES and ProteanTecs partner to enhance reliability testing with deep data analytics.** In October 2023 ProteanTecs, a leader in deep data analytics, and ELES have partnered for safety and mission-critical applications. Their collaboration integrates ProteanTecs'

monitoring solutions with ELES' reliability testing, detailed in their white paper "Using Deep Data Analytics to Enhance Reliability Testing: The Fast Roadmap for Zero Defects." This partnership aims to improve reliability testing by incorporating parametric measurements, enhancing stress tests, and offering dynamic calibration and early failure detection. This innovative approach aims to increase device reliability, improve production yields, and reduce time to market.

- **Extending the warrant exercise deadline to support further growth.** In October, 2023, ELES' shareholders meeting of warrant holder approved 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 Company added 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.
- **A new high-profile partnership in the Silicon Valley.** 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 May 2024, ELES received a repeat 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.

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



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