

Reliability for Business and Profitability Growth

ADD | Fair Value: €5.35 (€5.45) | Current Price: €3.85 | Upside: 38.9%

€ Million	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Total Revenue:	14.4	22.6	18.2	19.1	23.8	29.1	36.5
EBITDA	2.8	3.8	3.4	3.5	4.6	6.2	8.4
margin	19.4%	16.7%	18.4%	18.5%	19.4%	21.4%	23.0%
Net Profit	0.2	0.8	0.8	1.7	1.7	2.5	3.9
margin	1.3%	3.3%	4.6%	8.8%	7.0%	8.5%	10.6%
EPS	n.a.	n.a.	0.08	0.15	0.12	0.18	0.28

Source: Company Data, KT&Partners' Elaboration.

Reliability to win new business and improve profitability. In 1H21, ELES-IT kept going on its R&D investment plan, investing €0.8mn or 8.6% of 1H21 sales. Furthermore, ELES-IT started a collaboration with Professor Alberto Sangiovanni Vincentelli, a pioneer in Electronic Design Automation and an electrical and computer engineering professor at the University of California. The collaboration aimed at expanding the offer related to R.E.T.E (Reliability Embedded Test Engineering) methodology and at digitalizing and automizing it, making ELES-IT's services more scalable and competitive within the ATE and Burn-In market.

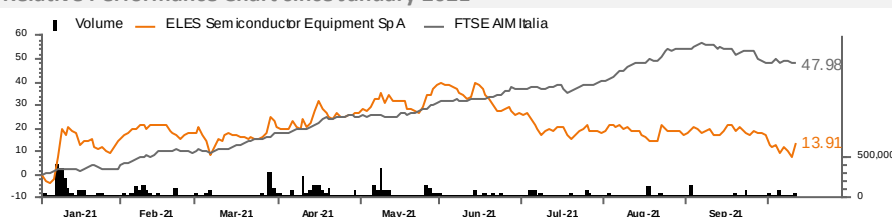
A path towards sustainability. In July 2021, ELES-IT achieved two certifications – UNI 14001 and UNI 45001 – attesting company's respect for the environment, safety, and health of its employees. These are first steps towards a much broader project aimed at integrating ESG principles into company management.

1H21 financial results. In 1H21, ELES-IT's sales came back to pre-Covid level, reaching €9.7mn (+16.7% vs 1H20 but -12.5% on our estimates) thanks to a positive performance of both Semiconductors and ECU business division. Semiconductor – accounting for more than 88% of total sales – amounted to €8.6mn (+12% YoY), while ECU business line stand out for its growth (+77% vs 1H20 to €1.1mn), following the recovery in Automotive market. Export revenues accounted for 64.4%, up by +4.9pp compared to 1H20, but not yet back to pre-Covid levels. EBITDA stood at €1.8mn (+31.7% YoY), with an EBITDA margin growing by 2.2pp at 18.3%, following gross margin improvement and lower incidence of labor costs. Finally, Net income grew by 73% vs 1H20, coming in at €0.8mn and net cash position amounted to €4.9mn, benefitting from €4.7mn of capital increase after 4.6mn warrant conversion.

Estimates review. We slightly revised downwards our top line estimates - aligning to FY21 company's guidance - mainly on the back of lower-than-expected 1H21 results and possible longer delivery time due to the global shortage. We now foresee FY21 total revenues at €23.8mn, growing at a CAGR20-23E of 24.1%. At profitability level, we slightly lowered our EBITDA margin to factor in: i) higher than expected 1H21 service costs; and ii) a worsening in 2H21 gross margin compared to our previous estimates due to higher costs of raw material in the light of the persisting global shortage. EBITDA margin is then expected to progressively improve from 19.4% in 2021 to 23% in 2023. Finally, net income is now expected to grow at a CAGR20-23E of 32%, amounting to €3.9mn in 2023 and a net cash position of €10.7mn by 2023.

Valuation. Our valuation – based on both DCF and multiple methods, also considering the impact of warrant dilution – returns an equity value of €72.9mn or a fair value of €5.35ps, +38.9% on the current price and -1.8% on our previous price mainly following peers' multiples contraction.

Relative Performance Chart since January 2021



Research Update

October 13, 2021 – 7.00 h

Equity Research Team

connect@ktepartners.com

Federica FIORENZA

miaccino@ktepartners.com

Mauro IACCINO

miaccino@ktepartners.com

Valentina ZANONI

vzanoni@ktepartners.com

Market Data

Main Shareholders	
Zaffarami Antonio	31.0%
Franceschin Carla	8.0%
Zaffarami Francesca	5.1%
Mkt Cap (€ mn)	52.5
EV (€ mn)	52.0
Shares issued (mn)	13.63
Free Float (%)	56%

Market multiples	2020	2021	2022
EV/EBITDA			
ELES	13.4x	10.2x	7.6x
Comps median	20.9x	13.4x	12.8x
ELES vs Median	-36%	-24%	-40%

Stock Data

52 Wk High (€)	4.78
52 Wk Low (€)	2.49
Avg. Daily Trading 90d	29,776
Price Change 1w (%)	-2.8%
Price Change 1m (%)	13.9%

Key Figures – ELES S.p.A.

	Current price (€)	Fair Value (€)	Sector					Free Float (%)
	3.85	5.35	Semiconductor Testing					56.01%
Per Share Data	2017A	2018A	2019A	2020A	2021E	2022E	2023E	2024E
Total shares outstanding (mn)	n.m.	n.m.	11.16	11.32	13.63	13.63	13.63	13.63
EPS	n.m.	n.m.	0.08	0.15	0.12	0.18	0.28	0.42
Dividend per share (ord)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Dividend pay out ratio (%)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Profit and Loss (EUR million)								
Revenues	14.4	22.6	18.2	19.1	23.8	29.1	36.5	41.7
EBITDA	2.8	3.8	3.4	3.5	4.6	6.2	8.4	9.8
EBIT	0.6	1.5	1.4	1.6	2.5	3.7	5.6	8.3
EBT	0.4	1.2	1.0	1.5	2.3	3.5	5.5	8.1
Taxes	(0.2)	(0.5)	(0.2)	0.2	(0.7)	(1.0)	(1.6)	(2.4)
Tax rate	47%	39%	17%	-16%	29%	29%	29%	29%
Net Income	0.2	0.8	0.8	1.7	1.7	2.5	3.9	5.8
Balance Sheet (EUR million)								
Total fixed assets	9.6	8.3	8.8	8.5	9.9	9.9	8.9	9.1
Net Working Capital (NWC)	4.0	4.4	6.6	6.3	9.0	9.2	9.7	10.6
Provisions	(1.3)	(1.3)	(0.9)	(0.9)	(1.2)	(1.6)	(2.1)	(2.6)
Total Net capital employed	12.4	11.4	14.6	13.9	17.7	17.5	16.5	17.0
Net financial position/(Cash)	6.6	4.9	2.1	(0.5)	(3.1)	(5.9)	(10.7)	(16.0)
Total Shareholder's Equity	5.8	6.5	12.5	14.4	20.8	23.3	27.2	33.0
Cash Flow (EUR million)								
Net operating cash flow	-	3.3	3.1	3.8	3.9	5.1	6.8	7.4
Change in NWC	-	(0.4)	(2.2)	0.3	(2.7)	(0.2)	(0.5)	(0.8)
Capital expenditure	-	(0.7)	(2.4)	(2.1)	(3.5)	(2.5)	(1.8)	(1.8)
Other cash items/Uses of funds	-	0.3	0.6	0.6	0.3	0.4	0.5	0.5
Free cash flow	-	1.9	(2.0)	2.5	(2.0)	2.9	5.0	5.4
Enterprise Value (EUR million)								
Market Cap	n.a.	n.a.	51.8	34.0	52.5	52.5	52.5	52.5
Minorities	-	-	-	-	-	-	-	-
Net financial position/(Cash)	6.6	4.9	2.1	(0.5)	(3.1)	(5.9)	(10.7)	(16.0)
Enterprise value	n.a.	n.a.	54	34	48	45	40	35
Ratios								
EBITDA margin	19.4%	16.7%	18.4%	18.5%	19.4%	21.4%	23.0%	23.5%
EBIT margin	4.2%	6.5%	7.5%	8.2%	10.7%	12.7%	15.4%	19.8%
Gearing - Debt/equity	114.9%	74.5%	16.7%	-3.7%	-15.0%	-25.1%	-39.4%	-48.4%
Interest cover on EBIT	41.6%	16.0%	13.4%	6.7%	7.9%	5.1%	3.0%	1.7%
NFP/EBITDA	2.37x	1.29x	0.62x	-0.15x	-0.68x	-0.94x	-1.27x	-1.63x
ROCE	4.9%	12.8%	9.4%	11.2%	14.4%	21.1%	34.1%	48.6%
ROE	3.2%	11.5%	6.7%	11.7%	8.0%	10.6%	14.2%	17.5%
EV/Sales	3.3x	2.1x	2.6x	2.5x	2.0x	1.6x	1.3x	1.1x
EV/EBITDA	16.9x	12.5x	14.1x	13.4x	10.2x	7.6x	5.6x	4.8x
P/E	283.7x	45.2x	40.6x	31.2x	30.4x	20.5x	13.1x	8.8x
Free cash flow yield	0.00%	-0.04%	0.04%	-0.05%	0.04%	-0.05%	-0.09%	-0.10%
Growth Rates (%)								
Sales	n.a.	n.m.	-19.4%	4.8%	24.9%	21.9%	25.5%	14.2%
EBITDA	n.a.	n.m.	-11.1%	5.1%	31.2%	34.1%	35.2%	16.6%
EBIT	n.a.	n.m.	-6.8%	13.9%	63.7%	44.4%	52.9%	47.1%
Net Income	n.a.	n.m.	-17.9%	101.0%	-1.0%	48.7%	56.3%	49.0%

Source: Company Data, KT&Partners' Elaboration

1H21 Financial Results

2021 half year results highlight ELES-IT's business recovery after a weak FY20. 1H21 sales increased by +16.7% YoY to €9.7mn (-12.5% on our estimates), coming back to pre-COVID level (€9.8mn of sales in 1H19). Business growth enjoys among other things: i) an early recovery of the automotive industry; and ii) clients basis expansion, with first solutions delivered to five new clients in the USA, Israel and China.

It is worth pointing out that ELES-IT grew more than Semiconductor Equipment market (considering countries where the company focused more than 90% of its business, i.e. North America, Europe, SEA/ROW) that is forecasted to grow by +12% YoY.¹

Looking at the sales breakdown, Semiconductor sales were up by +12% vs 1H20, amounting to €8.6mn (88% of total sales). ECU segment experienced a remarkable 77% growth (totaling €1.1mn but still having a low contribution on revenues), following the early recovery in Automotive market, and supported by the contribution from I&D division.

Export revenues accounted for 64.4%, up by +4.9pp compared to 1H20, but not yet back to pre-Covid levels. The largest contribution came from EMEA (31.9%), while the largest year-over-year increase was attributable to Asia (+79%).

Company's gross profit amounted to €6.1mn (+18.5% YoY but -9.3% than forecasted), with an improvement in gross margin by +1.4pp (+1.3pp above our forecasts) thanks to a better product mix following the higher contribution from Services. Furthermore, in the first half of 2021, ELES-IT was partially impacted by the global shortage of materials as it could rely on its existing inventory. However, we expect that the persisting crisis of raw materials could penalize 2H21 gross margin and results.

EBITDA stood at €1.8mn, +31.7% compared to 1H20 (-10.8% on our estimates). Following gross margin improvement and lower incidence of labor costs, EBITDA margin experienced a +2.2pp growth compared to 1H20 amounting to 18.3%. Despite a higher-than-expected gross margin, EBITDA margin came in almost in line with our estimates due to higher than expected services costs.

A brighter performance was recorded at bottom line level. Net income grew by +73% vs 1H20, coming in at €0.8mn, slightly above our estimates also benefitting from lower D&A costs incidence.

Finally, ELES-IT reached a net cash position adjusted (including €3.1mn related to insurance policies) of €4.9mn, from a €527k net cash position at the end FY20 mainly thanks to €4.7mn of capital increase following the conversion of 4.6mn of warrants.

¹ Source: SEMI, September 2021

1H21 Income Statement

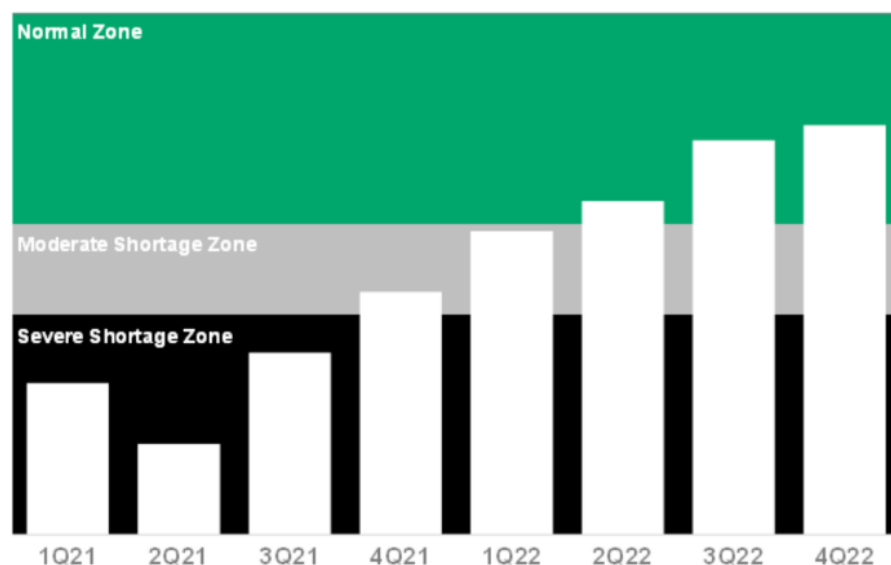
€ million	1H19	1H20	1H21	YoY %	1H21E	A vs E %
Sales	9.8	8.3	9.7	16.7%	11.0	-12.5%
Other Revenues	0.2	0.4	0.4	-4.6%	0.3	28.5%
Total Revenues	10.0	8.7	10.1	15.7%	11.3	-11.3%
Products and Raw materials	(4.2)	(3.6)	(4.0)	11.7%	(4.7)	-14.2%
Gross Profit	5.8	5.1	6.1	18.5%	6.7	-9.3%
<i>Gross Margin</i>	<i>58.0%</i>	<i>58.9%</i>	<i>60.3%</i>	<i>1.4%</i>	<i>59.0%</i>	<i>1.3%</i>
Cost of Services	(1.8)	(1.6)	(1.9)	16.0%	(2.0)	-6.5%
Personnel Expenses	(1.9)	(2.0)	(2.3)	12.8%	(2.4)	-6.3%
Other Operating Expenses	(0.200)	(0.117)	(0.1)	-7.7%	(0.2)	-52.8%
EBITDA	1.8	1.4	1.8	31.7%	2.1	-10.8%
<i>EBITDA margin</i>	<i>18.5%</i>	<i>16.1%</i>	<i>18.3%</i>	<i>2.2%</i>	<i>18.2%</i>	<i>0.1%</i>
D&A and Provisions	(0.9)	(0.8)	(0.8)	8.9%	(1.0)	-16.1%
EBIT	0.9	0.6	1.0	59.6%	1.1	-5.7%
<i>EBIT margin</i>	<i>9.3%</i>	<i>7.2%</i>	<i>10.0%</i>	<i>2.7%</i>	<i>9.4%</i>	<i>0.6%</i>
Financial Income and Expenses	(0.1)	0.0	(0.0)	-150.0%	(0.1)	-89.4%
Extraordinary items	(0.2)	0.0			0	
EBT	0.6	0.7	1.0	52.5%	1.0	3.3%
Taxes	(0.2)	(0.2)	(0.2)	11.1%	(0.2)	7.9%
<i>Tax Rate</i>	<i>37.1%</i>	<i>33.2%</i>	<i>24.2%</i>		<i>23.2%</i>	<i>1.0%</i>
Net Income	0.4	0.4	0.8	73.0%	0.7	2.0%
<i>Net margin</i>	<i>4.1%</i>	<i>5.0%</i>	<i>7.5%</i>	<i>2.5%</i>	<i>6.5%</i>	<i>1.0%</i>

Source: Company Data

The Ongoing Chip Shortage Drives the Market Up

The semiconductor shortage has severely disrupted the supply chain and, according to a Gartner analysis, is an issue expected to persist until the second quarter of 2022. Meanwhile, customer's tendency is to more and more stockpiling (in some cases ordering three times as many semiconductors as they need), even ordering from different suppliers to ensure semiconductor supply as fast as possible. As a result, foundries are increasing wafer prices, and in turn, chip companies are increasing device prices (Memory prices increased by 25% in April 2021 with respect to the previous month, the largest jump since 2017).²

Projected Worldwide Semiconductor Inventory Index Movement, 2021-2022



Source: Gartner, May 2021

In its latest forecasts,³ WSTS revised upward its estimates for next years, anticipating Semiconductor market size at \$551bn in 2021, registering a +25.1% growth (+5.4pp on previous estimates), and a +10.1% for 2022. Asia Pacific is expected to drive the market with a +27.2% YoY, followed by Europe, expected to grow by +26.4% YoY. The most promising product categories are Integrated Circuits (with the Memory sub-category anticipated at 37%) and Sensors.

The main countries and their governments have taken action to solve chip shortage problem with a series of incentives and investments in favor of the sector, even if effects are expected to be seen only in the medium term. South Korea announced a push worth \$450bn over ten years, the United States is pushing legislation worth \$52 billion, and the EU could invest up to \$160bn into its semiconductor sector. According to SEMI, investments for semiconductor production grew globally 56% YoY (as of April 2021). SEMI also indicates that 10 new 300-mm fabs are expected to start operation in 2021, while 14 more in 2022.⁴ Among these, a significant contribution for Europe is expected to come from STM's semiconductor fab in Agrate,⁵ that is expected to become operational from 3Q22, reaching a full capacity production of 8 thousand wafers per week.

² Source: Barron's, "Chip Stocks Are Falling. Why Investors Should Buy the Dip.", May 2021

³ Source: WSTS, August 2021

⁴ Source: "How and when the chip shortage will end", June 2021

⁵ Source: Il Sole24Ore, "Stm, fabbrica da 1,6 miliardi per colmare la carenza di chip", June 2021

Change in Estimates

We slightly revised downwards our top line estimates, aligning our projections to FY21 company's guidance, mainly factoring in lower-than-expected revenues 1H21 results and possible longer delivery time due to the global shortage. We therefore foresee FY21 total revenues at €23.8mn, growing at a CAGR20-23E of 24.1% (vs +25.1% CAGR20-23 of our previous research) to reach €36.5mn in 2023.

We project FY21 EBITDA at €4.6mn increasing at a CAGR20-23 of +33.5%, and we slightly revised our FY21 EBITDA margin⁷ downwards mainly factoring in:

- an expected worsening in gross margin in 2H21 compared to our previous estimates due to higher raw materials costs caused by the persisting shortage that is affecting the semiconductor market;
- a slight increase in cost of services incidence to line up with 1H21 results.

These negative effects on EBITDA margin will only be partially offset by an expected lower incidence of personnel costs made possible by higher forecasted production in 2H21.

As a result, we anticipate FY21 EBITDA margin at 19.4%, progressively improving to 23% in 2023.

At the bottom line, the negative impact of topline and profitability downwards revision will be partially offset by a lower incidence of D&As following lower than expected 1H21 investments. We anticipate net income to grow at a CAGR20-23E of 32.0%, amounting to €3.9mn in 2023.

Finally, we expect FY21 net cash position at €3.1mn (vs €1.1mn of net debt of our previous estimates, mainly considering the cash-in related to warrant exercise). We expect net cash position to worsen in 2H21 compared to 1H21 mainly following higher NWC cash absorption due to business growth and an increase in inventory to face the semiconductor shortage. Net cash position is expected to gradually improve over the 2021-23 period, reaching €10.7mn by 2023.

Key financial indicators can be summed up as follows:

- FY21E total revenues €23.8, reaching €36.5mn in 2023 with a CAGR20A-23E of 24.1%;
- FY21E EBITDA at €4.6mn, growing at a CAGR20A-23E of 33.5%, amounting to €8.4mn in 2023;
- FY21E net income to be at €1.7mn, and to reach €3.9mn in 2023, with a CAGR20A-23E of 32.0%;
- FY21E net cash position of €3.1mn, reaching €10.7mn in FY23E.

Change in Estimates

€ mn	2019	2020	Change	2021E	2021E	Change	2022E	2022E	Change	2023E	2023E	Change	CAGR
	Actual	Actual		Old	New		Old	New		Old	New		2020-23
Total Revenues	18.2	19.1	4.8%	24.9	23.8	-4.1%	29.8	29.1	-2.4%	37.4	36.5	-2.4%	24.1%
YoY Change (%)	-19.4%	4.8%		30.3%	24.9%		19.8%	21.9%		25.5%	25.5%		
EBITDA	3.4	3.5	5.1%	5.1	4.6	-8.7%	6.6	6.2	-5.4%	8.9	8.4	-5.2%	33.5%
YoY Change (%)	-11.1%	5.1%		43.7%	31.2%		29.5%	34.1%		34.9%	35.2%		
EBITDA Margin	18.4%	18.5%		20.4%	19.4%		22.0%	21.4%		23.7%	23.0%		
EBIT	1.4	1.6	13.9%	2.9	2.5	-11.4%	3.8	3.7	-1.9%	5.7	5.6	-1.5%	53.5%
YoY Change (%)	-6.8%	n.m.		84.8%	63.7%		30.5%	44.4%		52.2%	52.9%		
Net Income	0.8	1.7	101.0%	1.9	1.7	-10.5%	2.5	2.5	-0.2%	3.9	3.9	0.0%	32.0%
YoY Change (%)	11.3%	n.m.		10.6%	-1.0%		33.4%	48.7%		55.9%	56.3%		
NFP	2.1	(0.5)	(2.6)	1.1	(3.1)	(4.2)	(1.0)	(5.9)	(4.9)	(5.5)	(10.7)	(5.2)	

Source: Company Data, KT&Partners' Elaboration

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

Valuation

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

- **EV/EBITDA multiple:** with a 15% liquidity discount, which returns a value of €5.58ps;
- **DCF analysis** based on WACC of 8.3% and 2% perpetual growth, which returns a value of €5.96ps.

The average of the two methods yields a fair value of €5.77ps.

When valuing the company, we also take into consideration:

- **Warrant dilution effect:** As of July 31st, 2021, there were 6.2mn warrants outstanding. As the warrants are in the money (strike price €2.05), we carried out a simulation of warrant that will be exercisable by the market (based on 56.01% free float), for an estimated capital increase of ca. €3.6mn (1.7mn new shares). The diluted fair value would be equal to €5.35ps (based on 15.4mn shares).

By summing up the results of the valuation methods and the warrant effects, we project a fair value of €5.35ps.

Valuation Recap

	Equity Value €mn	Value per share €
Valuation model avg	78.66 €	5.77 €
Post Warrant Dilution -	5.74 € -	0.42 €
Fair Value	72.92 €	5.35 €

Source: FactSet, KT&Partners' elaboration

Market Multiples Valuation

Following our comps analysis, we evaluate the company by using the 2021–23 EV/EBITDA market multiples of the peer sample. Our valuation also includes a 15% liquidity/size discount and takes into account our estimates of ELES's EBITDA for 2021, 2022 and 2023. NFP is adjusted for the June and July warrant exercise, for a total cash-in of €4.7mn.

We did not consider the P/E market multiples, as ELES's 2021–23 net income is expected to be penalized by strong investments that the company will carry out in the next years to preserve its technological leadership (more than €9mn of investments expected between in the 2021–23 period).

We removed from our peers' panel Cohu Inc., after the announcement of the sale of its Printed Circuit Board Test business to Mycronic AB.

Peer Comparison – Market Multiples 2020–23

Company Name	Exchange	Market Cap	EV/SALES 2020	EV/SALES 2021	EV/SALES 2022	EV/SALES 2023	EV/EBITDA 2020	EV/EBITDA 2021	EV/EBITDA 2022	EV/EBITDA 2023	EV/EBIT 2020	EV/EBIT 2021	EV/EBIT 2022	EV/EBIT 2023	P/E 2020	P/E 2021	P/E 2022	P/E 2023
Advantest Corp.	Tokyo	13,759	5.0x	4.1x	4.0x	3.9x	20.9x	13.4x	12.4x	12.1x	24.8x	15.1x	14.0x	13.7x	23.3x	20.7x	18.9x	18.4x
Aehr Test Systems	NASDAQ	420	29.7x	9.5x	6.8x	4.9x	n.m	n.a.	n.a.	n.a.	n.m	28.4x	18.0x	n.m	45.6x	27.7x	18.4x	
Chroma Ate Inc.	Taiwan	2,417	5.1x	4.3x	3.7x	3.3x	24.4x	18.6x	13.9x	12.1x	28.3x	20.9x	15.1x	13.0x	34.1x	17.2x	17.8x	15.2x
Teradyne, Inc.	NASDAQ	15,399	5.4x	4.7x	4.4x	4.1x	16.4x	13.2x	12.8x	12.3x	18.4x	14.5x	13.8x	12.9x	24.9x	19.3x	17.8x	17.0x
Average peer group		7,999	11.3x	5.7x	4.7x	4.0x	20.6x	15.1x	13.0x	12.2x	23.8x	16.8x	17.8x	14.4x	27.4x	25.7x	20.6x	17.2x
Median peer group		8,088	5.2x	4.5x	4.2x	4.0x	20.9x	13.4x	12.8x	12.1x	24.8x	15.1x	14.6x	13.3x	24.9x	20.0x	18.4x	17.7x
ELES S.p.A.	Milan	34	2.5x	2.0x	1.6x	1.3x	13.4x	10.2x	7.6x	7.6x	30.3x	18.5x	12.8x	12.8x	25.9x	30.4x	20.5x	20.5x

Source: FactSet, KT&Partners' Elaboration

EV/EBITDA Multiple Valuation

Multiple Valuation (€mn)	2021E	2022E	2023E
EV/EBITDA Comps	15.1x	13.0x	12.2x
ELES S.p.A. EBITDA	4.63	6.21	8.40
Enterprise value	69.7	80.9	102.2
Eles S.p.A. FY20 NFP Adj	(5.3)	(5.3)	(5.3)
Equity Value	75.0	86.2	107.4
Average Equity Value		89.6	
Liquidity/Size Discount		15%	
Equity Value Post-Discount		76.1	
Number of shares (mn)		13.6	
Value per Share €		5.58	

Source: FactSet, KT&Partners' elaboration

From our multiple analysis we derive a value of €5.58ps, down from €7.63ps of our previous research, experiencing a decrease of 37% following peers' multiples contraction. This was a combined result of: i) a reduction in stock performance since our latest update of April 13th, 2021 (a median decrease of -6.9%), and ii) an increase in peer's financial estimates over the 2021–23 period since our latest update of April 13th.

Peers' Price Change (%)

Company Name	Price change % 13.04.21	Price change % 6Month	Price change % 1Year	Price change % YTD
Advantest Corp.	-15.0%	-17.9%	60.4%	13.1%
Aehr Test Systems	771.1%	719.2%	1234.7%	654.4%
Chroma Ate Inc.	1.1%	-2.1%	16.1%	9.5%
Teradyne, Inc.	-16.3%	-17.2%	24.7%	-9.9%
Average	185.2%	170.5%	334.0%	166.8%
Median	-6.9%	-9.7%	42.5%	11.3%
ELES Semiconductor Equipment SpA	-12.0%	-5.4%	43.7%	13.9%

Source: FactSet, KT&Partners' elaboration

Peers' Estimates Review (€mn)

Company Name	EBITDA 2021		Change %	EBITDA 2022		Change %	EBITDA 2023		Change %
	Old	New		Old	New		Old	New	
Advantest Corp.	786.9	935.4	18.9%	901.8	1008.1	11.8%	n.a.	1033.0	n.a.
Aehr Test Systems	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Chroma Ate Inc.	137.3	126.4	-7.9%	158.8	169.4	6.7%	176.5	195.4	10.8%
Teradyne, Inc.	935.5	1118.9	19.6%	1026.4	1153.7	12.4%	1109.4	1196.5	7.8%
Average	619.9	726.9	10.2%	695.7	777.1	10.3%	642.9	808.3	9.3%
Median	786.9	935.4	18.9%	901.8	1008.1	11.8%	642.9	1033.0	9.3%

Source: FactSet, KT&Partners' elaboration

DCF Valuation

We have also performed our valuation using a four-year DCF model, based on an 8.8% cost of equity, 3% cost of debt and a target capital structure with 8% debt (Damodaran for the semiconductor equipment sector). The cost of equity is a function of the risk-free rate of 0.9% (Italian 10y BTP), 4.36% equity risk premium (Damodaran for a mature market, from 5.39% in our previous research). We, therefore, obtained 8.3% WACC.

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

DCF Valuation

€ million	2021E	2022E	2023E	2024E
EBIT	2.5	3.7	5.6	8.3
Taxes	(0.7)	(1.1)	(1.6)	(2.4)
D&A	2.1	2.5	2.8	1.5
Change in Net Working Capital	(2.7)	(0.2)	(0.5)	(0.8)
Change in Funds	0.3	0.4	0.5	0.5
Net Operating Cash Flow	1.5	5.4	6.7	7.1
Capex	(3.5)	(2.5)	(1.8)	(1.8)
FCFO	(2.0)	2.9	5.0	5.4
g	2.0%			
Wacc	8.3%			
FCFO (discounted)	(2.0)	2.6	4.2	4.1
Discounted Cumulated FCFO	8.9			
TV	86.6			
TV (discounted)	67.0			
Enterprise Value	75.9			
FY20 NFP Adj	(5.3)			
Equity Value	81.2			
Current number of shares (mn)	13.6			
Value per share (€)	5.96			

Source: Company data, KT&Partners' elaboration

DCF Sensitivity Analysis

€ million	WACC					
Terminal growth rate		8.8%	8.6%	8.3%	8.1%	7.8%
	1.5%	70.8	73.3	76.0	78.8	82.0
	1.8%	72.9	75.6	78.5	81.6	84.9
	2.0%	75.2	78.1	81.2	84.5	88.2
	2.3%	77.7	80.8	84.1	87.7	91.7
	2.5%	80.4	83.7	87.3	91.2	95.5

Source: Company data, KT&Partners' elaboration

Appendix

Peer Comparison

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

For peers analysis, we built a sample of four companies which include:

- **Advantest Corp.:** listed on the Tokyo stock exchange with a market capitalization of €13.7bn, Advantest Corp. is the leading producer of ATE for the semiconductor industry and a manufacturer of mechatronic products used in the design and production of electronic instruments and systems. In FY20, the company reached revenues of €2.3bn. It operates through the:
 - Semiconductor and Components Test Systems segment, which offers test systems for the semiconductor and electronic component industries (71% of FY20 total sales) with a particular focus on DRAM and more recently on SoC;
 - Mechatronic segment which provides the semiconductor devices handling mechatronic applied products such as testers, handlers, device interfaces and nanotechnology products (13% of FY20 total sales);
 - Others segment which is involved in the customer solution, support and equipment leasing services;
- **Aehr Test Systems:** listed on NASDAQ with a market capitalization of €420mn, Aehr Test Systems engages in the design, manufacture, and marketing of test and burn-in products to the semiconductor manufacturing industry. Its products include wafer contact test systems (89% of FY20 total sales), test during burn-in systems (11% of FY20 total sales), test fixtures and dye carriers. In FY20, the company reached revenues of €20mn;
- **Chroma ATE Inc.:** listed on the Taiwan stock exchange with a market capitalization of €2.4bn, 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 FY20, the company reached revenues of €0.5bn;
- **Teradyne Inc.:** listed on NASDAQ with a market capitalization of €15.4bn, Teradyne Inc. supplies automation equipment for test and industrial applications. In FY20, the company reached revenues of €2.7bn. It operates through the:
 - Semiconductor Test segment (72% of FY20 total revenue) which designs, manufactures, sells, and supports semiconductor test products and services, which are used both for wafer level and device package testing;
 - Systems Test segment (13% of FY20 total revenue) which comprises the defense and aerospace, storage test, and production board test business unit;
 - Wireless Test segment (6% of FY20 total revenue) which designs, develops, and supports advanced wireless test equipment for the manufacturing of wireless devices such as smartphones, tablets, notebooks, laptops, personal

computer peripherals, and other Wi-Fi, Bluetooth, near-field communication and cellular enabled devices;

- Industrial Automation segment (9% of FY20 total revenue) which supplies collaborative robots that work side by side with production workers.

DISCLAIMER

THIS DOCUMENT WAS PREPARED BY FEDERICA FIORENZA – SENIOR ANALYST – MAURO IACCINO – SENIOR ANALYST – AND VALENTINA ZANONI – JUNIOR ANALYST – ON BEHALF OF KT&PARTNERS S.R.L., WITH REGISTERED OFFICE AT VIA DELLA POSTA 10, MILAN, ITALY, MILAN COMPANY REGISTER NO. 1926922, SPECIALIZING IN FINANCIAL RESEARCH AND ANALYSIS (HEREINAFTER, “KT&PARTNERS”).

NO OTHER PEOPLE OR COMPANY CONTRIBUTED TO THE RESEARCH. NEITHER THE MEMBERS OF THE RESEARCH TEAM, NOR ANY PERSON CLOSELY ASSOCIATED WITH THEM HAVE ANY RELATIONSHIPS OR ARE INVOLVED IN CIRCUMSTANCES THAT MAY REASONABLY BE EXPECTED TO IMPAIR THE OBJECTIVITY OF THE RESEARCH, INCLUDING INTERESTS OR CONFLICTS OF INTEREST, ON THEIR PART OR ON THE PART OF ANY NATURAL OR LEGAL PERSON WORKING FOR THEM, WHO WAS INVOLVED IN PRODUCING THE RESEARCH.

FOR THIS PURPOSE, THE MEMBERS OF THE RESEARCH TEAM CERTIFY THAT: (I) THEY HAVE NOT RECEIVED AND WILL NOT RECEIVE ANY DIRECT OR INDIRECT COMPENSATION IN EXCHANGE FOR ANY VIEWS EXPRESSED IN THE RESEARCH; (II) THEY DO NOT OWN ANY SECURITIES AND/OR ANY OTHER FINANCIAL INSTRUMENTS ISSUED BY THE COMPANY OR ANY FINANCIAL INSTRUMENT WHICH THE PRICE DEPENDS ON, OR IS LINKED TO ANY SECURITIES AND/OR ANY FINANCIAL INSTRUMENTS ISSUED BY THE COMPANY; (III) NEITHER THE ANALYSTS NOR ANY MEMBER OF THE ANALYST’S HOUSEHOLD SERVE AS AN OFFICER, DIRECTOR OR ADVISORY BOARD MEMBER OF THE COMPANY.

KT&PARTNERS HAS IN PLACE AN EQUITY RESEARCH POLICY, IN ORDER TO RULE RESEARCH SERVICES IN COMPLIANCE WITH PARLIAMENT REGULATION (EU) NO.596/2014 AND COMMISSION DELEGATED REGULATION (EU) NO. 958/2016 ON MARKET ABUSE. IN THIS POLICY, THERE ARE ALSO DESCRIBED THE ORGANIZATIONAL MECHANISMS ADOPTED BY KT&PARTNERS TO PREVENT AND PROFESSIONALLY MANAGE CONFLICTS OF INTEREST THAT MAY ARISE DURING THE PERFORMANCE OF THE RESEARCH. IN ANY CASE, CHINESE WALLS AND OTHER INFORMATION BARRIERS ARE IN PLACE TO AVOID THE EXCHANGE OF CONFIDENTIAL INFORMATION BETWEEN THE EQUITY RESEARCH DEPARTMENT AND OTHER SERVICES AREAS.

KT&PARTNERS PREPARED THIS DOCUMENT ON BEHALF OF ELES SPA ACCORDING TO AN AGREEMENT ENTERED WITH THE SAME AND ON THE BASIS OF THE DATA AND PUBLIC INFORMATION PROVIDED BY THE SAME OR DERIVED FROM SOURCES DEEMED SERIOUS AND RELIABLE ON THE FINANCIAL MARKET BUT WHOSE ABSOLUTE TRUSTWORTHINESS, COMPLETENESS, AND ACCURACY CANNOT BE GUARANTEED. THE FEES AGREED FOR THIS RESEARCH DO NOT DEPEND ON THE RESULTS OF THE RESEARCH.

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

KT&PARTNERS PREVIOUSLY RELEASED RELATECH EQUITY RESEARCH UPDATE ON 13/04/2021 WITH A FAIR VALUE OF €5.45PS.

THIS DOCUMENT IS A SOURCE OF INFORMATION ONLY, AND IS NOT PART OF, AND IN NO WAY MUST BE CONSIDERED AN OFFER TO SELL, SUBSCRIBE OR TRADE, OR A SOLICITATION TO PURCHASE, SUBSCRIBE OR TRADE, FINANCIAL INSTRUMENTS/PRODUCTS, OR IN GENERAL TO INVEST, NOR MUST IT BE CONSIDERED ANY FORM OF CONSULTING FOR AN INVESTMENT IN FINANCIAL INSTRUMENTS.

THE INFORMATION PROVIDED IN THIS DOCUMENT MUST NOT BE UNDERSTOOD AS A REQUEST OR SUGGESTION TO CONDUCT OR CARRY OUT A SPECIFIC TRANSACTION.

EACH INVESTOR MUST FORM HIS/HER OWN OPINION BASED EXCLUSIVELY ON HIS/HER ASSESSMENT OF THE ADVISABILITY OF INVESTING. ANY INVESTMENT DECISION MADE ON THE BASIS OF THE INFORMATION AND ANALYSES IN THIS DOCUMENT IS THE EXCLUSIVE RESPONSIBILITY OF THE RECIPIENTS OF THIS DOCUMENT, WHO MUST CONSIDER THIS DOCUMENT MERELY AS A SOURCE OF INFORMATION AND ANALYSIS TO SUPPORT SUCH DECISION.

ANY OPINIONS, FORECAST OR ESTIMATES CONTAINED HEREIN CONSTITUTE A JUDGEMENT AS AT THE DATE OF THIS DOCUMENT, AND THERE CAN BE NO ASSURANCE THAT THE FUTURE RESULTS OF THE COMPANY AND/OR ANY FUTURE EVENTS WILL BE CONSISTENT WITH ANY OF SUCH OPINIONS, FORECAST OR ESTIMATES.

KT&PARTNERS MAKES NO EXPLICIT OR IMPLICIT GUARANTEE WITH RESPECT TO PERFORMANCE OR THE OUTCOME OF ANY INVESTMENT OR PROJECTIONS MADE.

THEREFORE, KT&PARTNERS, ITS REPRESENTATIVES AND/OR EMPLOYEES WILL NOT BE LIABLE FOR ANY EFFECT DERIVING FROM THE USE OF THIS DOCUMENT, AND HEREBY DECLINE ALL LIABILITY FOR ANY DIRECT OR INDIRECT DAMAGES, FINANCIAL OR OTHERWISE, DERIVING FROM ANY USE OF THE INFORMATION IT CONTAINS.

KT&PARTNERS AIMS TO PROVIDE CONTINUOUS COVERAGE OF THE COMPANY IN CONJUNCTION WITH ANY EXCEPTIONAL EVENT THAT OCCURS AFFECTING THE ISSUER'S SPHERE OF OPERATIONS AND IN ANY CASE AT LEAST TWICE PER YEAR.

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

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



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