

A Trusted Partner in Challenging Times

ADD | Fair Value: €5.19 (€5.35) | Current Price: €3.48 | Upside: 49.1%

€ Million	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Total Revenue:	14.4	22.6	18.2	19.1	21.3	26.6	34.6
EBITDA	2.8	3.8	3.4	3.5	3.7	5.2	7.6
margin	19.4%	16.7%	18.4%	18.5%	17.4%	19.6%	21.9%
Net Profit	0.2	0.8	0.8	1.7	1.1	1.8	3.4
margin	1.3%	3.3%	4.6%	8.8%	5.1%	6.9%	9.7%
EPS	n.a.	n.a.	0.08	0.15	0.08	0.13	0.25

Source: Company data, KT&Partners' elaboration

Still far from end of chip shortage crisis. The global chip shortage is taking longer than expected to be resolved and the complete recovery will take years. Global chip demand kept growing, with companies tending to stockpile to face the persistent crisis in supply. This has led to a strong increase in delivery times, from 13 weeks on average over the last few years to the current 22 weeks (source: Deloitte). On the other hand, the semiconductors manufacturing companies are trying to cope with the chip shortage by increasing their production capacity, which requires both larger investments than in previous years and a well-trained labor force. Sony and Taiwan Semiconductor Manufacturing Company, the world's largest contract maker of chips, said they would invest \$7 billion to build a new factory but it won't start making chips until the end of 2024. Intel is also investing in several cutting-edge new factories but those won't be operative either until 2024. The CEOs of Marvell Technology and STMicroelectronics also believe that factory capacity expansions will not help to boost production until at least 2023 or 2024.

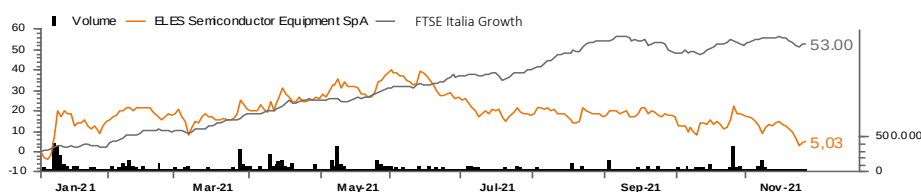
Kept winning new business. Although demand fulfilment is partially undermined by chip shortage, ELES-IT keeps expanding its customer base and portfolio of orders, setting the stage for future growth. ELES-IT has recently signed: i) a new strategic multi-year supply agreement with a leading European customer, supplier of electronic control units for the Automotive sector, which will allow the group to strengthen its international presence; and ii) an additional €1mn order of two ART systems from an established customer, a major US Integrated Device Manufacturer.

3Q21 Revenues and Guidance Revision. On November 8th, 2021, ELES-IT announced 3Q21 sales revenues at €12.5mn, experiencing a +15% YoY increase, of which €8.9mn was Service Revenues (+21% YoY). At the same time, the Company revised its 2021 guidance, mainly following the persisting chip shortage crisis that has led to: i) longer lead times, and ii) an increase in the purchase prices of electronic components and of basic materials. Therefore, ELES-IT now foresees FY21 revenues to stay in the range of €20mn–€ 21mn, with part of the order fulfilment shifting from 2021 to 2022 and an EBITDA margin between 17.3% and 18.3%.

Estimates review. Following the Company's FY21 guidance revision, we revised downwards our top line on the back of expected longer lead times due to the global chip shortage, with delivery of several orders shifting from 2021 to 2022. We now foresee FY21 total revenues at €21.3mn, growing at a CAGR20–23E of 21.9%. We also lowered our EBITDA margin projections by 2pp, factoring in higher costs of raw materials. EBITDA margin is expected to progressively improve from 17.4% in 2021 to 21.9% in 2023. Finally, we expect growth of net income at a CAGR20–23E of 25.8%, amounting to €3.4mn in 2023, and a net cash position of ca. €8.3mn by 2023.

Valuation. Although there are many unknowns in the market, we believe the company is well positioned, both domestically and abroad, as a reference partner for achieving the goal of zero defects in all semiconductor devices. Our valuation – based on both DCF and multiple methods, considering the impact of warrant dilution – returns an equity value of €70.7mn or a fair value of €5.19ps, +49.1% on the current price. At the current price of €3.48ps, the company trades at a discount with respect to its peers of 35% on EV/EBITDA 2021E and 43% on EV/EBITDA 2022E.

YTD Relative Performance Chart



Research Update

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Market Data

Main Shareholders	
Zaffarami Antonio	31.0%
Franceschin Carla	8.0%
Zaffarami Francesca	5.1%
Mkt Cap (€ mn)	47.4
EV (€ mn)	46.9
Shares issued (mn)	13.63
Free Float (%)	56%

Market multiples	2020	2021	2022
EV/EBITDA			
ELES	12.0x	11.4x	8.1x
Comps median	23.6x	17.6x	14.3x
ELES vs Median	-49%	-35%	-43%

Stock Data

52 Wk High (€)	4.78
52 Wk Low (€)	2.97
Avg. Daily Trading 90d	40,328
Price Change 1w (%)	-10.8%
Price Change 1m (%)	3.0%

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

Key Figures – ELES S.p.A.

	Current price (€)	Fair Value (€)	Sector					Free Float (%)
	3.48	5.19	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	0.08	0.13	0.25	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	21.3	26.6	34.6	40.9
EBITDA	2.8	3.8	3.4	3.5	3.7	5.2	7.6	9.6
EBIT	0.6	1.5	1.4	1.6	1.6	2.7	4.8	8.1
EBT	0.4	1.2	1.0	1.5	1.5	2.6	4.7	8.0
Taxes	(0.2)	(0.5)	(0.2)	0.2	(0.4)	(0.7)	(1.4)	(2.3)
Tax rate	47%	39%	17%	-16%	29%	29%	29%	29%
Net Income	0.2	0.8	0.8	1.7	1.1	1.8	3.4	5.7
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	8.5	9.1	10.4	11.1
Provisions	(1.3)	(1.3)	(0.9)	(0.9)	(1.2)	(1.7)	(2.1)	(2.7)
Total Net capital employed	12.4	11.4	14.6	13.9	17.2	17.3	17.2	17.5
Net financial position/(Cash)	6.6	4.9	2.1	(0.5)	(3.1)	(4.8)	(8.3)	(13.6)
Total Shareholder's Equity	5.8	6.5	12.5	14.4	20.3	22.1	25.4	31.1
Cash Flow (EUR million)								
Net operating cash flow	-	3.3	3.1	3.8	3.2	4.4	6.2	7.3
Change in NWC	-	(0.4)	(2.2)	0.3	(2.2)	(0.6)	(1.3)	(0.6)
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	(2.1)	1.8	3.6	5.4
Enterprise Value (EUR million)								
Market Cap	n.a.	n.a.	51.8	34.0	47.4	47.4	47.4	47.4
Net financial position/(Cash)	6.6	4.9	2.1	(0.5)	(3.1)	(4.8)	(8.3)	(13.6)
Enterprise value	n.a.	n.a.	54	34	44	43	39	34
Ratios								
EBITDA margin	19.4%	16.7%	18.4%	18.5%	17.4%	19.6%	21.9%	23.5%
EBIT margin	4.2%	6.5%	7.5%	8.2%	7.6%	10.1%	13.9%	19.8%
Gearing - Debt/equity	114.9%	74.5%	16.7%	-3.7%	-15.2%	-21.6%	-32.5%	-43.8%
Interest cover on EBIT	41.6%	16.0%	13.4%	6.7%	6.2%	3.9%	1.9%	0.9%
NFP/EBITDA	2.37x	1.29x	0.62x	-0.15x	-0.83x	-0.91x	-1.09x	-1.42x
ROCE	4.9%	12.8%	9.4%	11.2%	9.4%	15.5%	28.1%	46.2%
ROE	3.2%	11.5%	6.7%	11.7%	5.3%	8.3%	13.2%	18.3%
EV/Sales	2.9x	1.9x	2.3x	2.2x	2.0x	1.6x	1.2x	1.0x
EV/EBITDA	15.1x	11.2x	12.6x	12.0x	11.4x	8.1x	5.6x	4.4x
P/E	256.4x	45.2x	40.6x	28.2x	44.1x	25.9x	14.1x	8.3x
Free cash flow yield	0.00%	-0.04%	0.04%	-0.05%	0.04%	-0.03%	-0.07%	-0.10%
Growth Rates (%)								
Sales	n.a.	n.m.	-19.4%	4.8%	11.5%	25.1%	30.0%	18.1%
EBITDA	n.a.	n.m.	-11.1%	5.1%	4.8%	41.2%	45.4%	26.5%
EBIT	n.a.	n.m.	-6.8%	13.9%	3.8%	66.4%	79.3%	67.7%
Net Income	n.a.	n.m.	-17.9%	101.0%	-36.1%	70.4%	83.0%	69.5%

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.

Change in Estimates

Following the revision of 2021 guidance, we lowered our estimates factoring in longer delivery times due to the global shortage, which has led to delivery of several orders shifting from 2021 to 2022. We expect ELES to re-accelerate its growing path starting from mid-2023 when the global shortage is expected to gradually ease. We therefore foresee FY21 total revenues at €21.3mn, growing at a CAGR20–23E of 21.9% to reach €34.6mn in 2023.

We now project FY21 EBITDA at €3.7mn increasing at a CAGR2020–23 of +29.1%. We also revised downwards our FY21 EBITDA margin¹ by 2pp, mainly factoring in the higher purchase price for electronic components and basic materials caused by the persisting shortage that is affecting the semiconductor market. As a result, we anticipate FY21 EBITDA margin to be 17.4%, progressively improving to 21.9% in 2023.

At the bottom line, we now anticipate net income to grow at a CAGR20–23E of 25.8%, amounting to €3.4mn in 2023.

Finally, we estimate FY21 net financial position at €3.1mn, anticipating it to reach ca. €8.3mn by 2023.

Key financial indicators can be summed up as follows:

- FY21E total revenues €21.3, reaching €34.6mn in 2023 with a CAGR20A–23E of 21.9%;
- FY21E EBITDA at €3.7mn, growing at a CAGR20A–23E of 29.1%, amounting to €7.6mn in 2023;
- FY21E net income to be at €1.1mn, and to reach €3.4mn in 2023, with a CAGR20A–23E of 25.8%;
- FY21E net cash position of €3.1mn, reaching €8.3mn 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%	23.8	21.3	-10.8%	29.1	26.6	-8.4%	36.5	34.6	-5.2%	21.9%
<i>YoY Change (%)</i>	<i>-19.4%</i>	<i>4.8%</i>		<i>24.9%</i>	<i>11.5%</i>		<i>21.9%</i>	<i>25.1%</i>		<i>25.5%</i>	<i>30.0%</i>		
EBITDA	3.4	3.5	5.1%	4.6	3.7	-20.1%	6.2	5.2	-15.9%	8.4	7.6	-9.6%	29.1%
<i>YoY Change (%)</i>	<i>-11.1%</i>	<i>5.1%</i>		<i>31.2%</i>	<i>4.8%</i>		<i>34.1%</i>	<i>41.2%</i>		<i>35.2%</i>	<i>45.4%</i>		
<i>EBITDA Margin</i>	<i>18.4%</i>	<i>18.5%</i>		<i>19.4%</i>	<i>17.4%</i>		<i>21.4%</i>	<i>19.6%</i>		<i>23.0%</i>	<i>21.9%</i>		
EBIT	1.4	1.6	13.9%	2.5	1.6	-36.6%	3.7	2.7	-26.9%	5.6	4.8	-14.3%	45.8%
<i>YoY Change (%)</i>	<i>-6.8%</i>	<i>n.m.</i>		<i>63.7%</i>	<i>3.8%</i>		<i>44.4%</i>	<i>66.4%</i>		<i>52.9%</i>	<i>79.3%</i>		
Net Income	0.8	1.7	101.0%	1.7	1.1	-35.4%	2.5	1.8	-26.0%	3.9	3.4	-13.4%	25.8%
<i>YoY Change (%)</i>	<i>11.3%</i>	<i>n.m.</i>		<i>-1.0%</i>	<i>-36.1%</i>		<i>48.7%</i>	<i>70.4%</i>		<i>56.3%</i>	<i>83.0%</i>		
NFP	2.1	(0.5)	(2.6)	(3.1)	(3.1)	0.1	(5.9)	(4.8)	1.1	(10.7)	(8.3)	2.4	

Source: Company data, KT&Partners' elaboration

¹ 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 €5.34ps;
- **DCF analysis** based on WACC of 8.4% and 2% perpetual growth, which returns a value of €5.84ps.

The average of the two methods yields a fair value of €5.59ps.

When valuing the company, we also take into consideration:

- **Warrant dilution effect:** As of Nov 28th, 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 €5.19ps (based on 15.4mn shares).

By summing up the results of the valuation methods and the warrant effects, we project a fair value of €5.19ps.

Valuation Recap

	Equity Value €mn	Value per share €
Valuation model avg	76.16 €	5.59 €
Post Warrant Dilution -	5.45 € -	0.40 €
Fair Value	70.71 €	5.19 €

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).

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	15,584	5.6x	4.5x	4.2x	4.0x	23.6x	14.7x	12.3x	11.8x	28.1x	16.6x	14.4x	13.8x	26.8x	23.3x	20.0x	19.0x
Aehr Test Systems	NASDAQ	425	30.0x	9.3x	6.7x	4.8x	n.m	n.a.	n.a.	n.a.	n.m	n.m	27.8x	17.6x	n.m	40.5x	24.7x	16.4x
Chroma Ate Inc.	Taiwan	2,464	5.4x	4.5x	3.7x	3.3x	26.0x	20.9x	14.3x	12.2x	30.1x	23.7x	15.6x	13.1x	35.5x	18.0x	18.0x	15.1x
Teradyne, Inc.	NASDAQ	21,959	7.7x	6.4x	5.9x	5.5x	23.4x	17.6x	16.7x	15.6x	26.2x	19.3x	18.0x	16.5x	34.4x	24.6x	22.7x	20.7x
Average peer group		10,108	12.2x	6.2x	5.1x	4.4x	24.3x	17.7x	14.4x	13.2x	28.1x	19.9x	18.9x	15.3x	32.2x	26.6x	21.3x	17.8x
Median peer group		9,024	6.6x	5.5x	5.0x	4.4x	23.6x	17.6x	14.3x	12.2x	28.1x	19.3x	16.8x	15.1x	34.4x	24.0x	21.3x	17.7x
ELES S.p.A	Milan	47	2.2x	2.0x	1.6x	1.2x	11.9x	11.4x	8.1x	5.6x	27.1x	26.1x	15.7x	8.7x	23.4x	44.1x	25.9x	14.1x

Source: FactSet, KT&Partners' Elaboration

EV/EBITDA Multiple Valuation

Multiple Valuation (€mn)	2021E	2022E	2023E
EV/EBITDA Comps	17.7x	14.4x	13.2x
ELES S.p.A. EBITDA	3.70	5.22	7.59
Enterprise value	65.4	75.3	100.2
ELES S.p.A. FY20 NFP Adj	(5.3)	(5.3)	(5.3)
Equity Value	70.7	80.6	105.5
Average Equity Value		85.6	
Liquidity/Size Discount		15%	
Equity Value Post-Discount		72.7	
Number of shares (mn)		13.6	
Value per Share €		5.34	

Source: FactSet, KT&Partners' elaboration

DCF Valuation

We have also performed our valuation using a four-year DCF model, based on an 8.9% 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 0.97% (Italian 10y BTP), 4.36% equity risk premium (Damodaran for a mature market). We, therefore, obtained 8.4% 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	1.6	2.7	4.8	8.1
Taxes	(0.5)	(0.8)	(1.4)	(2.3)
D&A	2.1	2.5	2.8	1.5
Change in Net Working Capital	(2.2)	(0.6)	(1.3)	(0.6)
Change in Funds	0.3	0.4	0.5	0.5
Net Operating Cash Flow	1.4	4.3	5.3	7.2
Capex	(3.5)	(2.5)	(1.8)	(1.8)
FCFO	(2.1)	1.8	3.6	5.4
g	2.0%			
Wacc	8.4%			
FCFO (discounted)	(2.1)	1.6	3.0	4.2
Discounted Cumulated FCFO	6.7			
TV	86.6			
TV (discounted)	67.6			
Enterprise Value	74.3			
FY20 NFP Adj	(5.3)			
Equity Value	79.6			
Current number of shares (mn)	13.6			
Value per share (€)	5.84			

Source: Company data, KT&Partners' elaboration

DCF Sensitivity Analysis						
€ million		WACC				
Terminal growth rate		8.9%	8.6%	8.4%	8.1%	7.9%
	1.5%	69.2	71.7	74.4	77.2	80.3
	1.8%	71.4	74.0	76.9	79.9	83.3
	2.0%	73.7	76.5	79.6	82.9	86.5
	2.3%	76.2	79.2	82.5	86.1	90.0
	2.5%	78.9	82.1	85.7	89.6	93.8

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 €15.6bn, 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 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 €425mn, 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 €2.5bn, 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 €22bn, 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.

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