

Leveraging on Cash to Support Growth

ADD | Fair Value: €3.68 (€5.19) | Current Price: €2.56 | Upside: +43.7%

€ Million	FY18A	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Total Revenues	22.6	18.2	19.1	19.7	21.5	28.0	34.5
EBITDA	3.8	3.4	3.5	3.2	2.9	5.0	7.1
margin	16.7%	18.4%	18.5%	16.0%	13.7%	17.7%	20.7%
Net Profit	0.8	0.8	1.7	0.9	0.6	1.9	3.4
margin	3.3%	4.6%	8.8%	4.3%	3.0%	6.9%	9.7%
EPS	n.a.	0.08	0.15	0.06	0.05	0.14	0.25
NFP/(Cash)	4.9	2.1	(0.5)	(3.2)	(2.3)	(4.3)	(8.0)

Source: Company data, KT&Partners' elaboration

FY21 results. On March 28th, 2022, ELES announced FY21 results, reporting €19mn of sales revenues (+5% YoY) showing resilience despite the global uncertainties connected to chip shortage, not yet solved, leading to supply delays and the shift to 2022 of some strategical orders (that led sales revenues -7.9% below our expectations). FY21 EBITDA amounted to €3.2mn (-10.4% YoY and -14.5% on our estimates) with an EBITDA margin of 16%, down by 2.5pp YoY (1.3pp below our estimates) mainly due to: i) lower R&D contribution; ii) a decrease in gross margin following a higher incidence of raw material costs; and ii) higher incidence of service and labour costs to support the business development plan. Finally, at the end of 2021 ELES recorded a net cash position of €3.2mn from €0.5mn, also benefiting from €4.8mn cash-in from warrant conversion, exceeding our estimates by ca. €1.1mn following the postponement of investments.

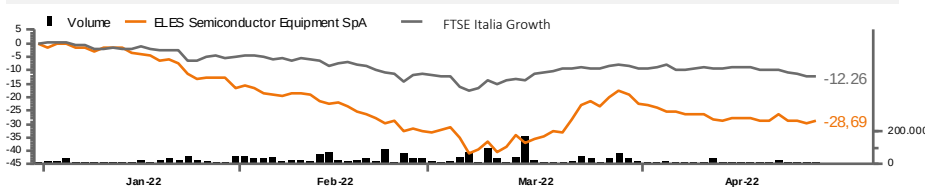
Investors' eyes on semiconductor world. To face the global shortage and cope with the increasing demand of semiconductors, during 2021, several players carried out extraordinary financial operations to expand their business. Intel acquired Tower Semiconductor for \$54bn, boosting its plan to satisfy US and European chips demand whereas Mobileye – Intel's ADAS division, market served by ELES since its foundation through its mission critical solutions – announced its intention to go public in 2022. An even more powerful signal comes from Italy, where Technoprobe - world leader in the probe cards manufacturing – recently listed on the EGM market with €644mn of capital raised and a market cap of €3.4 bn.

Strengthening its worldwide presence through M&As and new clients. In January 2022 ELES further widened and diversified its portfolio's offer with the acquisition (for an undisclosed amount) of Campera Electronic System, an Italian company based in Livorno, providing since 2014 design and Intellectual Property (IP) for Video, Radar, Mission and Safety Critical systems. Thanks to this acquisition ELES has strengthened its ECU & ID business line with the aim of becoming a reference provider of reliability improvement solutions for companies active in the Aerospace & Defense industry. Moreover, the Group recently gained two strategic orders in the Asian region: one from an Asian foundry among to top 5 worldwide, and the other one from a reliability lab in Taiwan, leading country for silicon chips manufacturing.

Estimates review. We revised downward our topline forecasts over the 2022-24 period factoring in both longer delivery times and a shift in ELES's customer investments. We now foresee FY22 total revenues at €21.5mn, growing at +20.5% CAGR21-24E. We also lowered our EBITDA margin estimates on the back of i) the persisting global shortage, leading to higher costs of raw materials in FY22 and partially in FY23; and ii) the energy crisis that is expected to negatively impact production costs in FY22. EBITDA margin is expected to progressively improve from 13.7% in 2022 to 20.7% in 2023. Finally, we expect net income to grow at a CAGR21-24 of 57.8%, amounting to €3.4mn in 2024, and a net cash position of ca. €8mn by 2024.

Valuation. Our valuation – based on both DCF and multiple methods, considering the impact of warrant dilution – returns an equity value of €50.2mn or a fair value of €3.68ps, +43.7% on the current price.

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)	34.9
EV (€ mn)	31.7
Shares issued (mn)	13.63
Free Float (%)	56%

Market multiples	2021	2022	2023
EV/EBITDA			
ELES	10.0x	10.8x	6.4x
Comps median	13.9x	12.2x	10.2x
ELES vs Median	-28%	-12%	-37%

Stock Data

52 Wk High (€)	4.78
52 Wk Low (€)	2.08
Avg. Daily Trading 90d	29,778
Price Change 1w (%)	-8.6%
Price Change 1m (%)	-30.1%

Key Figures – ELES S.p.A.

	Current price (€)	Fair Value (€)	Sector					Free Float (%)
	2.56	3.68	Semiconductor Testing					56.02%
Per Share Data	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E
Total shares outstanding (mn)	n.m.	n.m.	11.16	11.32	13.6	13.63	13.63	13.63
EPS	n.m.	n.m.	0.08	0.15	0.06	0.05	0.14	0.25
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	19.7	21.5	28.0	34.5
EBITDA	2.8	3.8	3.4	3.5	3.2	2.9	5.0	7.1
EBIT	0.6	1.5	1.4	1.6	1.1	0.9	2.6	4.4
EBT	0.4	1.2	1.0	1.5	1.1	0.8	2.5	4.4
Taxes	(0.2)	(0.5)	(0.2)	0.2	(0.3)	(0.2)	(0.6)	(1.0)
Tax rate	47%	39%	17%	-16%	23%	23%	23%	23%
Net Income	0.2	0.8	0.8	1.7	0.9	0.6	1.9	3.4
Balance Sheet (EUR million)								
Total fixed assets	9.6	8.3	8.8	8.5	9.2	9.9	9.6	9.0
Net Working Capital (NWC)	4.0	4.4	6.6	6.3	8.0	9.1	9.7	10.5
Provisions	(1.3)	(1.3)	(0.9)	(0.9)	(0.9)	(1.2)	(1.6)	(2.1)
Total Net capital employed	12.4	11.4	14.6	13.9	16.3	17.8	17.7	17.4
Net financial position/(Cash)	6.6	4.9	2.1	(0.5)	(3.2)	(2.3)	(4.3)	(8.0)
Total Shareholder's Equity	5.8	6.5	12.5	14.4	19.5	20.1	22.0	25.4
Cash Flow (EUR million)								
Net operating cash flow	-	3.3	3.1	3.8	2.9	2.7	4.4	6.1
Change in NWC	-	(0.4)	(2.2)	0.3	(1.7)	(1.1)	(0.7)	(0.8)
Capital expenditure	-	(0.7)	(2.4)	(2.1)	(2.4)	(2.8)	(2.1)	(2.1)
Other cash items/Uses of funds	-	0.3	0.6	0.6	0.4	0.3	0.4	0.5
Free cash flow	-	1.9	(2.0)	2.5	(1.6)	(0.8)	2.1	3.8
Enterprise Value (EUR million)								
Market Cap	n.a.	n.a.	51.8	34.0	47.9	34.9	34.9	34.9
Minorities	-	-	-	-	-	-	-	-
Net financial position/(Cash)	6.6	4.9	2.1	(0.5)	(3.2)	(2.3)	(4.3)	(8.0)
Enterprise value	n.a.	n.a.	54	34	45	33	31	27
Ratios								
EBITDA margin	19.4%	16.7%	18.4%	18.5%	16.0%	13.7%	17.7%	20.7%
EBIT margin	4.2%	6.5%	7.5%	8.2%	5.4%	4.3%	9.2%	12.9%
Gearing - Debt/equity	114.9%	74.5%	16.7%	-3.7%	-16.3%	-11.5%	-19.7%	-31.7%
Interest cover on EBIT	41.6%	16.0%	13.4%	6.7%	-4.3%	8.4%	2.9%	1.4%
NFP/EBITDA	2.37x	1.29x	0.62x	-0.15x	-1.00x	-0.79x	-0.87x	-1.13x
ROCE	4.9%	12.8%	9.4%	11.2%	6.6%	5.2%	14.6%	25.6%
ROE	3.2%	11.5%	6.7%	11.7%	4.4%	3.2%	8.7%	13.2%
EV/Sales	2.2x	1.4x	1.7x	1.7x	1.6x	1.5x	1.1x	0.9x
EV/EBITDA	11.4x	8.4x	9.5x	9.0x	10.0x	10.8x	6.4x	4.4x
P/E	188.7x	46.4x	41.7x	20.7x	40.8x	54.0x	18.1x	10.4x
Free cash flow yield	0.00%	-0.06%	0.07%	-0.08%	0.05%	0.03%	-0.07%	-0.12%
Growth Rates (%)								
Sales	n.a.	n.m.	-19.4%	4.8%	3.4%	8.9%	30.6%	23.0%
EBITDA	n.a.	n.m.	-11.1%	5.1%	-10.4%	-7.0%	69.2%	43.4%
EBIT	n.a.	n.m.	-6.8%	13.9%	-31.2%	-13.9%	181.3%	71.5%
Net Income	n.a.	n.m.	-17.9%	101.0%	-49.2%	-24.4%	198.2%	74.2%

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

Chart 1: Sales Revenues and EBITDA margin 2018-21 (€mn)

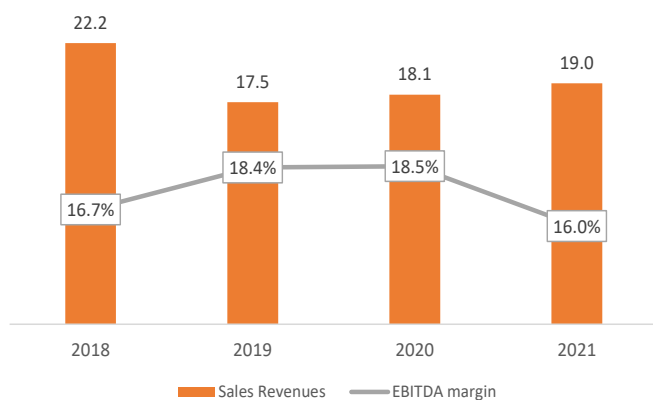


Chart 2: 2018-2021 Sales Revenues by product line (€mn)

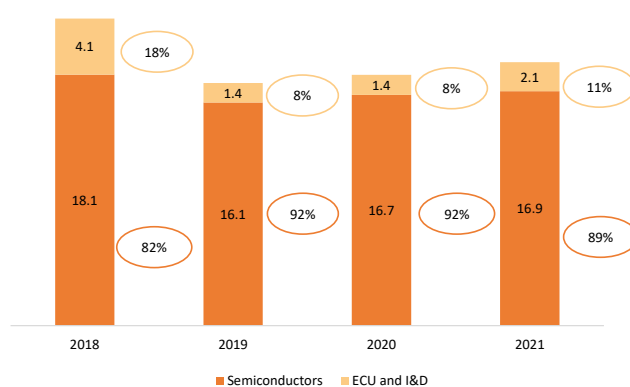


Chart 3: 2018-2021 Semiconductors Sales revenues

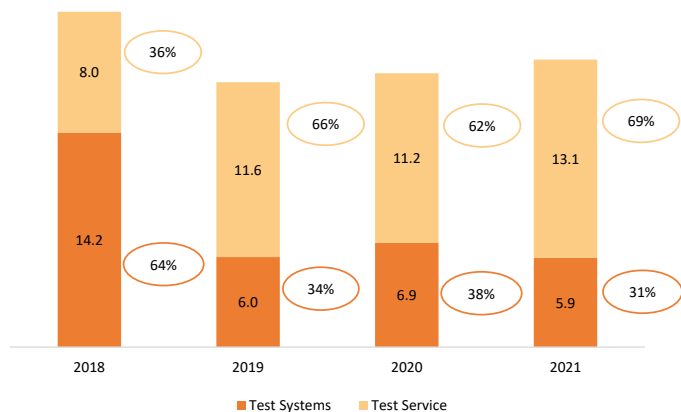


Chart 4: 2018-2021 Sales Revenues by geographic area

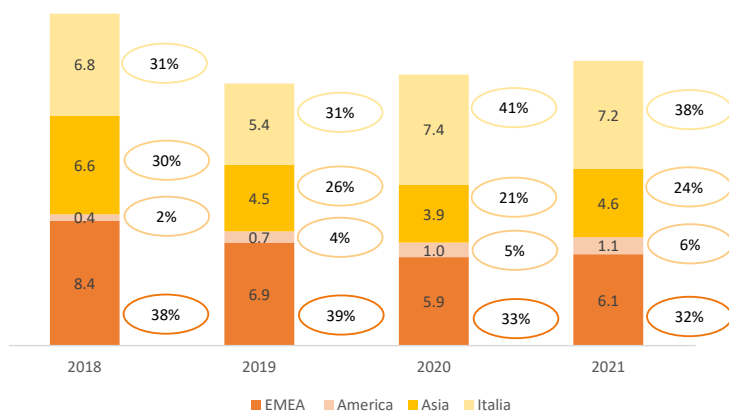
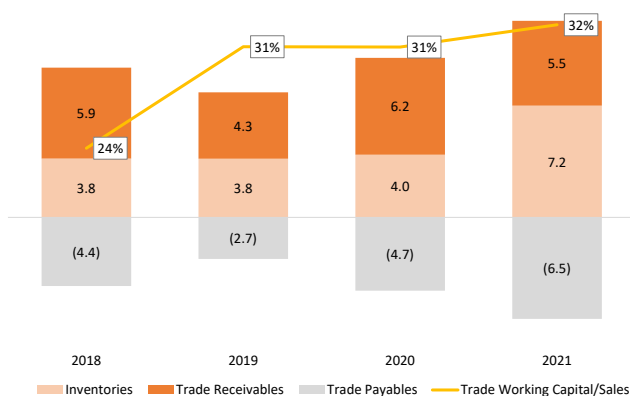
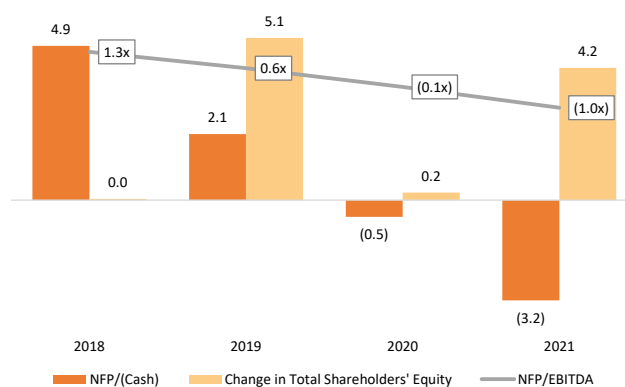


Chart 5: 2019-21 Trade Working Capital (€mn, %)



2019-21 NFP and NFP/EBITDA (€mn)



Overview

Company description

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

On June 19th, 2019, ELES went listed on EGM market, raising €6mn. Benefiting from an 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 to carry out up to 80% of the functional test during the Burn-In phase (*Test-During-Burn-In*) with important advantages in terms of time and cost savings. Future strategies entail further increase coverage of the functional test up to 100% (Total Test) on TDBI 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 which 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 testing machines solutions, ELES is able to meet market's needs and anticipate competitors' moves.
- **Kept expanding customer base and portfolio of orders.** Over the years, ELES has acquired new strategic clients in Europe, Far-East, USA and Israel, increasing its international presence while diversifying its customer base.

Recent developments

- In April 2022, ELES received a new order from an Israeli Silicon Valley Startup, active in Blockchain. The Company decided to qualify its product through RETE methodology.
- In February 2022, ELES received a **new order worth about \$700k** from one of the top five worldwide foundries for a site in Asia for the qualification of technology to produce Non-Volatile Memories.
- **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.
- Achievement of two certifications in August 2021– **UNI 14001 and UNI 45001** – attesting company's respect for the environment, safety, and health of its employees.
- **In May 2021, ELES started the collaboration with Professor Alberto Sangiovanni Vincentelli**, a pioneer in Electronic Design Automation, to expand and make more scalable and competitive the offer related to RETE.
- In February 2021, ELES has been officially recognized as **qualified supplier of reliability test solutions** from a major Chinese player in the fabless semiconductor world.

FY21 Results

In FY21, sales revenue slightly increased by 5% YoY coming in at €19mn (7.9% below our estimates) mainly due to the protraction of the shortages and pandemics that has led to: i) the shift in the delivery of some strategic orders to 2022; and ii) a postponement of investment plans of ELES' customers, increasing the use of existing production capacity to meet the growing demand. Total revenues came in at €19.7mn, increasing by 3.4% YoY.

ELES' FY21 foreign revenues increased its incidence on total revenues at 62.2% from the previous 59.3%, driven by the acquisition of orders from six new customers in the USA, Israel and Taiwan.

Following the increase of raw material costs due to the global shortage, gross margin slightly decreased by 30bps YoY to 59.9%, 60bps above our estimates mainly thanks to a higher contribution from Test Application.

FY21 EBITDA amounted to €3.2mn, down by 10.4% YoY and 14.5% below our projections, with EBITDA margin worsening by 2.5pp to 16.0% (-1.3pp on our estimates) mainly due to: i) the lower contribution in the form of R&D tax credit; ii) higher incidence of service (+1.6pp YoY) and labour costs (+0.6pp) to support the business development plan whose benefits were not yet fully reflected in the results of the period.

FY21 ELES' net income stood at €854k (vs €1.1mn of our estimates), down from the previous €1.7mn in 2020 which also benefited from €0.5mn of tax advantage related to a property revaluation in accordance with Law Decree 104/202.

Finally, NFP improved by ca. €2.6mn to €3.2mn at the end of 2021, also benefitting from €4.8mn cash-in from the exercise of warrants, exceeding our estimates by ca. €2mn mainly following to the postponement of investments to 2022.

FY21 Income Statement

€ million	FY18	FY19	FY20	FY21	YoY %	FY21E Old	A vs E %
Sales	22.2	17.5	18.1	19.0	5.0%	20.7	-7.9%
Other Revenues	0.4	0.7	1.0	0.7	-27.3%	0.6	14.4%
Total Revenues	22.6	18.2	19.1	19.7	3.4%	21.3	-7.3%
Products and Raw materials	(9.4)	(7.1)	(7.6)	(7.9)	4.2%	(8.7)	-8.7%
Gross Profit	13.2	11.2	11.5	11.8	2.8%	12.6	-6.3%
Gross Margin	58.4%	61.3%	60.2%	59.9%	-0.3%	59.2%	0.6%
Cost of Services	(4.5)	(3.5)	(3.7)	(4.1)	11.7%	(4.1)	0.5%
Personnel Expenses	(4.4)	(3.8)	(4.0)	(4.3)	6.3%	(4.5)	-6.2%
Other Operating Expenses	(0.4)	(0.452)	(0.2)	(0.3)	2.4%	(0.2)	2.1%
EBITDA	3.8	3.4	3.5	3.2	-10.4%	3.7	-14.5%
EBITDA margin	16.7%	18.4%	18.5%	16.0%	-2.5%	17.4%	-1.3%
Growth %		-11.1%				-2.5%	
D&A and Provisions	(2.3)	(2.0)	(2.0)	(2.1)	6.0%	(2.1)	0.5%
EBIT	1.5	1.4	1.6	1.1	-31.2%	1.6	-33.7%
EBIT margin	6.5%	7.5%	8.2%	5.4%	-2.7%	7.6%	-2.2%
Financial Income and Expenses	(0.2)	(0.2)	(0.1)	0.0	-143.8%	(0.1)	-146.1%
Extraordinary items		(0.2)	0.0	0.0		0.0	
EBT	1.2	1.0	1.5	1.1	-23.0%	1.5	-26.3%
Taxes	(0.5)	(0.2)	0.2	(0.3)	-212.4%	(0.4)	-40.4%
Tax Rate	38.8%	17.0%	-16.1%	23.5%		29.0%	-5.5%
Net Income	0.8	0.8	1.7	0.9	-49.2%	1.1	-20.5%
Net margin	3.3%	4.6%	8.8%	4.3%	-4.5%	5.1%	-0.7%
Growth %			101.0%	-49.2%			
NFP	4.9	2.1	(0.5)	(3.2)	(2.6)	(1.2)	(1.9)
NFP adjusted	4.3	1.5	(0.5)	(3.2)			

Source: Company data, KT&Partners' elaboration

Market update

According to World Semiconductors trade statistics (WSTS), the **Global semiconductor market sales were \$556bn in 2021, showing an increase of 26.2% from 2020**. This reflects a significant growth across all major product categories. The largest growth contributor was the Analog category with +33.1% YoY, followed by Memory with +30.9% YoY and Logic with +30.8% YoY. Americas and Europe recorded the highest growth of 27.4% and 27.3% respectively, followed by APAC (+26.5% YoY), while Japan showed a below-average growth rate at 19.8%. **In 2022, the worldwide semiconductor market is expected to increase by 10.4%, reaching \$613.5bn**. Market growth is expected to be driven by the Sensors category (+17.2% YoY), followed by Logic (+17.1% YoY) and Analog (+14.1% YoY) whereas the Memory category is expected to record the lowest growth of +1.1% YoY. In terms of regions, in 2022, the strongest growth is expected for Americas (+16.4% YoY), while lower growth rates are expected in Europe (+10.8% YoY), Japan (+9.7% YoY) and APAC (+8.3% YoY).

Worldwide Semiconductor Market growth (\$mn, %)

Region	Amounts in \$mn			Year on Year growth		
	2020	2021	2022	2020	2021	2022
Americas	95,366	121,481	141,386	21.3%	27.4%	16.4%
Europe	37,520	47,757	52,918	-5.8%	27.3%	10.8%
Japan	36,471	43,687	47,928	1.3%	19.8%	9.7%
Asia Pacific	271,032	342,967	371,291	5.1%	26.5%	8.3%
Total World	440,389	555,892	613,523	6.8%	26.2%	10.4%

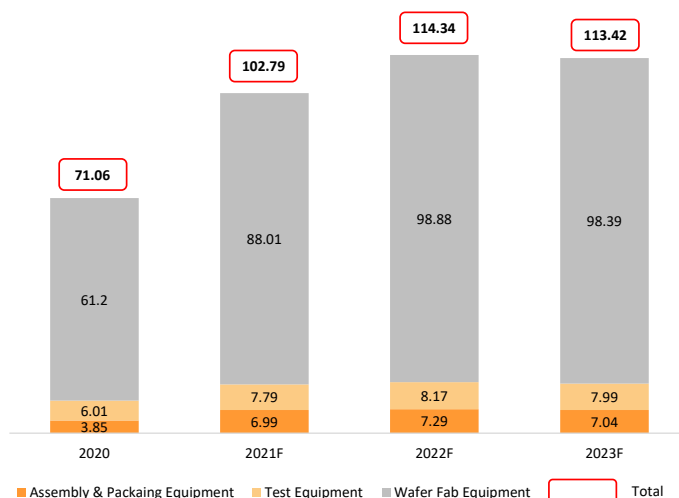
Source: WSTS data, KT&Partners' elaboration

Despite the COVID-19 pandemic, semiconductor demand remained solid with an expected growth of 25.7% supported by a shortage-related increase in selling prices and an estimated 10% increase in units sold in 2021, in line with the increase recorded in 2020.

According to SEMI, the **global sales of total semiconductor manufacturing equipment is forecasted to reach a new high of \$103bn in 2021, increasing by 44.7% from the previous industry record of \$71bn in 2020**. The growth is expected to continue, with a semiconductor market expected to reach \$114bn by 2022.

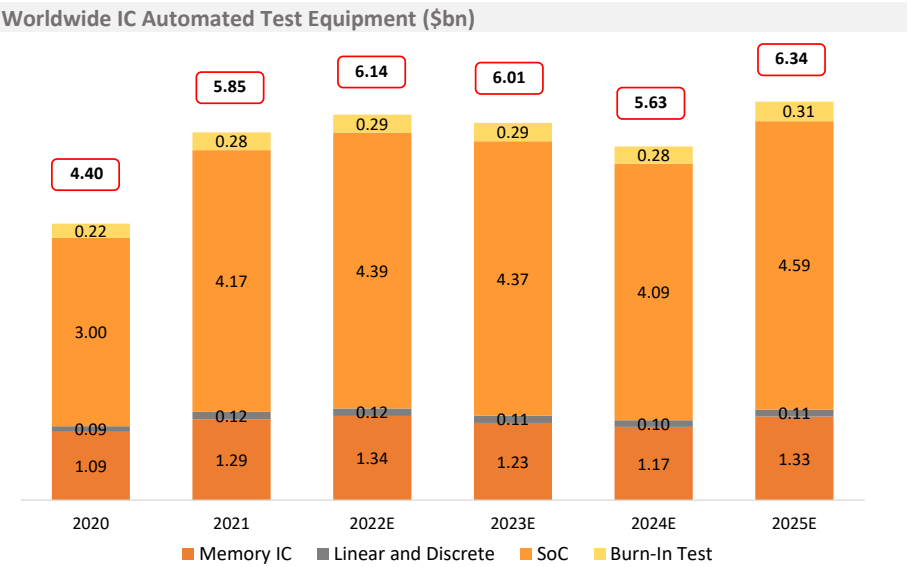
The semiconductor test market is expected to grow by 29.6% YoY in 2021 - to \$7.8bn - and by 4.9% in 2022 driven by the demand for 5G and high-performance computing (HPC) application expansion. Regionally, China, Korea, and Taiwan are projected to remain the top three contributors.

Total Equipment forecast by segment (\$bn)



Source: SEMI data, KT&Partners' elaboration

As of the **Burn-in test market**, it is expected to increase at a **CAGR21-26E of 4.3%**, with a slight contraction of 6% YoY in 2024E.



Source: VSLI September 2021 data, KT&Partners' elaboration

Change in Estimates

We revised downward our topline forecasts over the 2022-2024 period factoring in longer delivery times and a shift in ELES's customer investments due to the global shortage. We expect ELES to re-accelerate its growing path starting from mid-2023 when the global shortage is expected to gradually ease. Therefore, we now expect almost one-year shift in our revenue's estimates. We anticipate FY22 total revenues at €21.5mn, growing at a CAGR21-24E of 20.5% (vs 24.3% CAGR21-24 in our previous estimates), reaching €34.5mn in FY24.

We also lowered our EBITDA margin estimates to factor in: i) the persisting global shortage that is affecting the semiconductor market, leading to higher costs of raw materials in FY22 and partially in FY23; and ii) the energy crisis that is expected to negatively impact production costs in FY22. As results, we anticipate FY22 EBITDA margin to be in line with FY21 at 13.7%, progressively improving to 20.7% in 2024E. In absolute terms, we now project FY22 EBITDA at €2.9mn (vs €5.2mn of our previous projections), increasing at a CAGR21-24E at 31.2% to reach €7.1mn in FY24E.

At the bottom line, in FY22 we now forecast net income at €0.6mn (-64.7% compared to our previous estimates), reaching €3.4mn in FY24E (+57.8% CAGR21-24E)

On the balance sheet side, over the 2022-24 period we project €6.9mn of Capex, higher than our previous estimates of €6mn due to a shift in FY21 investments., of which ca. 87% related to R&D activities given the high importance for ELES' business. In 2022E, we now project a NWC at €2.3mn (previously seen at €8.3mn) accounting for 35% of sales due to the high stockpiling, projecting a decrease of its weight to 26% in FY24E thanks to a better management of NWC.

Finally, we estimate FY22 net cash position at €2.3mn anticipating it to reach €8.0mn by 2024.

Key financial indicators can be summed up as follows:

- FY22E total revenues €21.5mn, reaching €34.5mn in 2024 with a CAGR21A-24E of 20.5%;
- FY22E EBITDA at €2.9mn, reaching €7.1mn in 2024 growing at a CAGR21A-24E of 31.2%, amounting to €7.1mn in 2024;
- FY22E net income to be at €0.6mn, and to reach €3.4mn in 2024, with a CAGR21A-24E of 57.8%;
- FY22E net cash position of €2.3mn, reaching €8.0mn in FY24E.

Change in Estimates

€ mn	2019	2020	2021	2022E	2022E	Change	2023E	2023E	Change	2024E	2024E	Change	CAGR	CAGR
	Actual	Actual	Actual	Old	New		Old	New		Old	New		2021-24 Old	2021-24 new
Total Revenues	18.2	19.1	19.7	26.6	21.5	-19.3%	34.6	28.0	-18.9%	40.9	34.5	-15.6%	24.3%	20.5%
YoY Change (%)	-19.4%	4.8%	3.4%	25.1%	8.9%		30.0%	30.6%		18.1%	23.0%			
EBITDA	3.4	3.5	3.2	5.2	2.9	-43.6%	7.6	5.0	-34.4%	9.6	7.1	-25.7%	37.5%	31.2%
YoY Change (%)	-11.1%	5.1%	-10.4%	41.2%	-7.0%		45.4%	69.2%		26.5%	43.4%			
EBITDA Margin	18.4%	18.5%	16.0%	19.6%	13.7%	-5.9%	21.9%	17.7%	-4.2%	23.5%	20.7%	-2.8%		
EBIT	1.4	1.6	1.1	2.7	0.9	-65.7%	4.8	2.6	-46.2%	8.1	4.4	-45.0%	71.0%	60.7%
YoY Change (%)	-6.8%	n.m.	-31.2%	66.4%	-13.9%		79.3%	181.3%		67.7%	71.5%			
Net Income	0.8	1.7	0.9	1.8	0.6	-64.7%	3.4	1.9	-42.6%	5.7	3.4	-41.0%	74.2%	57.8%
YoY Change (%)	11.3%	n.m.	-49.2%	70.4%	-24.4%		83.0%	198.2%		69.5%	74.2%			
NFP	2.1	(0.5)	(3.2)	(4.8)	(2.3)	2.4	(8.3)	(4.3)	4.0	(13.6)	(8.0)	5.6		

Source: Company data, KT&Partners' elaboration

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 €3.47ps;
- **DCF analysis** based on WACC of 10.4% and 2% perpetual growth, which returns a value of €4.29ps.

The average of the two methods yields a fair value of €3.88ps.

When valuing the company, we also take into consideration:

- **Warrant dilution effect:** As of April 28th, 2022, there were 6.2mn warrants outstanding. As the warrants are in the money (strike price €2.1), we carried out a simulation of warrant that will be exercisable by the market (based on 56.02% free float), for an estimated capital increase of ca. €3.3mn (1.6mn new shares). The diluted fair value would be equal to €3.68ps (based on 15.4mn shares).

By summing up the results of the valuation methods and the warrant effects, we project a fair value of €3.68ps.

Valuation Recap

	Equity Value €mn	Value per share €
Valuation model avg	52.89 €	3.88 €
Post Warrant Dilution	- 2.74 € -	0.20 €
Fair Value	50.15 €	3.68 €

Source: FactSet, KT&Partners' elaboration

Market Multiples Valuation

Following our comps analysis, we evaluate the company by using the 2022–24 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 2022, 2023 and 2024. We also considered FY21 NFP at -€3.2mn.

We did not consider the P/E market multiples, as ELES's 2022–24 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 (almost €7mn of investments expected in the 2022–24 period).

Peer Comparison – Market Multiples 2021–24

Company Name	Exchange	Market Cap	EV/SALES 2021	EV/SALES 2022	EV/SALES 2023	EV/SALES 2024	EV/EBITDA 2021	EV/EBITDA 2022	EV/EBITDA 2023	EV/EBITDA 2024	EV/EBIT 2021	EV/EBIT 2022	EV/EBIT 2023	EV/EBIT 2024	P/E 2021	P/E 2022	P/E 2023	P/E 2024
Advantest Corp.	Tokyo	12,744	3.6x	3.2x	3.1x	3.3x	11.7x	9.2x	8.7x	8.3x	13.2x	10.6x	9.9x	9.5x	19.0x	15.2x	14.4x	16.4x
Aehr Test Systems	NASDAQ	195	3.5x	2.5x	1.8x	n.a.	n.a.	n.a.	n.a.	n.a.	20.2x	10.3x	6.4x	n.a.	17.7x	11.0x	7.3x	n.a.
Chroma Ate Inc.	Taiwan	2,137	4.0x	3.5x	3.1x	2.9x	19.0x	12.2x	10.2x	10.9x	22.7x	13.8x	11.2x	11.7x	17.4x	16.5x	13.5x	13.5x
Teradyne, Inc.	NASDAQ	16,335	5.0x	4.7x	3.9x	3.5x	13.9x	14.8x	11.7x	10.8x	15.2x	16.3x	12.3x	11.1x	21.6x	22.0x	16.0x	14.0x
Average peer group		7,853	4.0x	3.5x	3.0x	3.2x	14.8x	12.1x	10.2x	10.0x	17.8x	12.7x	9.9x	10.8x	18.9x	16.2x	12.8x	14.6x
Median peer group		7,440	3.8x	3.4x	3.1x	3.3x	13.9x	12.2x	10.2x	10.8x	17.7x	12.2x	10.5x	11.1x	18.3x	15.8x	14.0x	14.0x
ELES S.p.A.	Milan	35	1.6x	1.5x	1.1x	0.9x	10.0x	10.8x	6.4x	6.4x	29.6x	34.4x	12.2x	12.2x	41.6x	55.0x	18.5x	18.5x

Source: FactSet, KT&Partners' Elaboration

EV/EBITDA Multiple Valuation

Multiple Valuation (€mn)	2022E	2023E	2024E
EV/EBITDA Comps	12.1x	10.2x	10.0x
ELES S.p.A. EBITDA	2.94	4.98	7.14
Enterprise value	35.5	50.8	71.3
Eles S.p.A. FY21 NFP	(3.2)	(3.2)	(3.2)
Equity Value	38.6	54.0	74.5
Average Equity Value		55.7	
Liquidity/Size Discount		15%	
Equity Value Post-Discout		47.3	
Number of shares (mn)		13.6	
Value per Share €		3.47	

Source: FactSet, KT&Partners' elaboration

DCF Valuation

We have also performed our valuation using a four-year DCF model, based on an 10.8% cost of equity (vs the previous at 8.9%), 3% cost of debt and a target capital structure with 5.04% debt (Damodaran for the semiconductor equipment sector). The cost of equity is a function of the risk-free rate of 2.3% (Italian 10y BTP, from 0.97% in our previous research), 4.6% equity risk premium (Damodaran for a mature market) and a premium for size at 2.5%. We, therefore, obtained 10.4% WACC (+1.5pp from the previous research at 8.9%).

We discounted 2022E–25E annual cash flows and considered a terminal growth rate of 2.0%; then we carried out a sensitivity analysis on the terminal growth rate (+/- 0.25%) and on WACC (+/- 0.25%).

DCF Valuation				
€ million	2022E	2023E	2024E	2025E
EBIT	0.9	2.6	4.4	6.9
Taxes	(0.2)	(0.6)	(1.0)	(1.6)
D&A	2.0	2.4	2.7	2.1
Change in Net Working Capital	(1.1)	(0.7)	(0.8)	(0.3)
Change in Funds	0.3	0.4	0.5	0.6
Net Operating Cash Flow	2.0	4.1	5.8	7.7
Capex	(2.8)	(2.1)	(2.1)	(2.1)
FCFO	(0.8)	2.1	3.8	5.6
g	2.0%			
Wacc	10.4%			
FCFO (discounted)	(0.7)	1.6	2.6	3.9
Discounted Cumulated FCFO	7.5			
TV	68.7			
TV (discounted)	47.8			
Enterprise Value	55.3			
FY21 NFP	(3.2)			
Equity Value	58.5			
Current number of shares (mn)	13.6			
Value per share (€)	4.29			

Source: Company data, KT&Partners' elaboration

DCF Sensitivity Analysis						
€ million		WACC				
Terminal growth rate		10.9%	10.6%	10.4%	10.1%	9.9%
	1.5%	52.3	53.9	55.5	57.3	59.1
	1.8%	53.6	55.2	57.0	58.8	60.8
	2.0%	54.9	56.6	58.5	60.4	62.5
	2.3%	56.3	58.1	60.1	62.1	64.3
	2.5%	57.8	59.7	61.8	63.9	66.3

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 €12.7bn, 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 FY21, the company reached revenues of €3.2bn. It operates through the:
 - Semiconductor and Components Test Systems segment, which offers test systems for the semiconductor and electronic component industries (71.5% of FY21 total sales) with a particular focus on DRAM and more recently on SoC;
 - Mechatronic segment which provides the semiconductor devices handling mechatronic applied products such as testers, handlers, device interfaces and nanotechnology products (23.1% of FY20 total sales);
 - Others segment which is involved in the customer solution, support and equipment leasing services;
- **Aehr Test Systems:** listed on NASDAQ with a market capitalization of €195mn, 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 FY20, the company reached revenues of €14mn;
- **Chroma ATE Inc.:** listed on the Taiwan stock exchange with a market capitalization of €2.1bn, 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 FY21, the company reached revenues of €0.5bn;
- **Teradyne Inc.:** listed on NASDAQ with a market capitalization of €16bn, Teradyne Inc. supplies automation equipment for test and industrial applications. In FY21, the company reached revenues of €3.1bn. It operates through the:
 - Semiconductor Test segment (71% of FY21 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 FY21 total revenue) which comprises the defense and aerospace, storage test, and production board test business unit;
 - Wireless Test segment (6% of FY21 total revenue) which designs, develops, and supports advanced wirELESs test equipment for the manufacturing of wireless devices such as smartphones, tablets, notebooks, laptops, personal

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

- Industrial Automation segment (10% of FY21 total revenue) which supplies collaborative robots that work side by side with production workers.

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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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