

Outlook Better Than Market Thanks to M&A

ADD | Fair Value: €3.06 (€3.68) | Current Price: €1.62 | Upside: +89%

€ Million	FY18A	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Total Revenues	22.6	18.2	19.1	19.7	23.3	33.6	39.4
EBITDA	3.8	3.4	3.5	3.2	2.6	4.8	6.6
margin	16.7%	18.4%	18.5%	16.0%	11.0%	14.3%	16.7%
Net Profit	0.8	0.8	1.7	0.9	0.3	1.5	2.6
margin	3.3%	4.6%	8.8%	4.3%	1.2%	4.5%	6.6%
EPS	n.a.	0.08	0.15	0.06	0.02	0.11	0.19
NFP/(Cash)	4.9	2.1	(0.5)	(3.2)	4.4	0.1	(3.2)

Source: Company data, KT&Partners' elaboration

1H22 financial results Nonetheless raw material shortage that led to some procurement delays and production's slowdowns, in 1H22 sales revenues increased by 5% YoY at €10.1mn, in line with our estimates (€10.2mn) and with the growth recorded by the Semiconductor Equipment Market (+5% YoY). Growth was driven by Semiconductors segment (+9% YoY) mainly thanks to test systems' positive performance. Export increased by 14pp compared to 1H21 to 79%, also driven by the acquisition of new orders and customers in extra-EU countries after pandemic. Gross margin reduction – following raw materials' costs increase – coupled with an increase in services costs incidence and a different revenue mix, resulted in an EBITDA margin at 10.3% (-8pp YoY but in line with our estimates), with an EBITDA at €1.1mn (-42% YoY and slightly below our projections). Finally, net income amounted to €0.1mn (-84% YoY), and net debt amounted to €1.2mn (from a net cash position of €3.2mn), mainly on the back of a higher NWC absorption and €1.8mn of Capex.

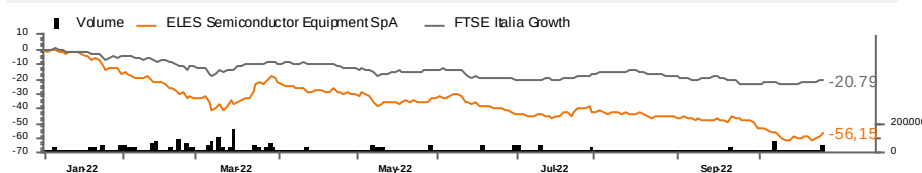
Closing of CBL acquisition. On October 13th, 2022, Eles announced the closing of the acquisition of a 96% stake in CBL Electronics, a Todi-based company focused on the design and production of hardware and software for testing semiconductors, boards, and electronic systems. We remind that Eles announced the acquisition of the first 62.7% stake in May 2022, then announcing the acquisition of an additional 33.3% stake in July 2022. We also note that the remaining 4% is subject to a put/call option (for a total consideration of €60k) expiring at the end of September 2023. In FY21, the target Company reached €9.1mn of VoP, an EBITDA of €0.5mn, and a NFP of €3.3mn. The transaction value was fixed at €1.35mn (of which €400k to be paid in kind) or at 8.6x EV/EBITDA.

Chip shortage and inflation leading to Semiconductors' growth slowdown. In 2022 the semiconductor market is expected to enter a period of weakness, slowing the growth that characterizes 2020 and 2021. Indeed, according to Gartner, the market is expected to grow at +7.4% YoY (vs +26% in FY21) and to decline by 2.5% in 2023, mainly due to a decrease in consumer spending on electronics products, factoring in rising inflation – exacerbated by chip shortage and war – only partially offset by the expected good performance in Automotive and digital segments. On the back of the semiconductor market trend, semiconductor test equipment also is projected to grow at a slower pace of +20% YoY, then remain stable at \$8.8bn in 2023.

Change in estimates. We revised our topline forecasts over the 2022E-24E period to factor in i) incoming synergies and contribution from CBL acquisition and ii) current semiconductor market slowdown. We now foresee FY22E total revenues at €23.3mn (vs previous seen at €21.5mn), also including two months of CBL contribution with €1.3mn of sales. We expect total revenues to reach €39.4mn at the end of FY24E (vs previous seen at €34.5mn), growing at +25.9% CAGR21-24E, faster than market thanks to Group synergies. On the other side, we lowered our FY22E EBITDA margin estimates to 11% (-2.7pp vs our previous projections) on the back of i) the persisting global shortage until 2023, leading to higher costs of raw materials coupled with ii) CBL's lower marginality. EBITDA margin is then expected to progressively improve to 16.7% in 2024E. Finally, we project FY22E net income at €0.5mn (CAGR21-24 +45.4%), and a FY22 NFP of €4.4mn (from -€2.3mn), factoring in i) ca. €4.3mn of M&A Capex and ii) higher NWC absorption on inventory side.

Estimates and valuation. Our valuation – based on both DCF and multiple methods – returns an equity value of €42.2mn or a fair value of €3.06ps, +89% on the current price.

YTD Relative Performance Chart



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Research Update

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Market Data

Main Shareholders	
Zaffarami Antonio	30.6%
Franceschin Carla	7.9%
Zaffarami Francesca	5.0%
Mkt Cap (€ mn)	22.3
EV (€ mn)	20.2
Shares issued (mn)	13.8
Free Float (%)	56.5%

Market multiples	2021	2022	2023
EV/EBITDA			
ELES	6.4x	7.9x	4.2x
Comps median	10.9x	12.6x	12.1x
ELES vs Median	-41%	-38%	-65%

Stock Data

52 Wk High (€)	4.17
52 Wk Low (€)	1.33
Avg. Daily Trading 90d	12,333
Price Change 1w (%)	-16.1%
Price Change 1m (%)	-55.7%

Key Figures – ELES S.p.A.

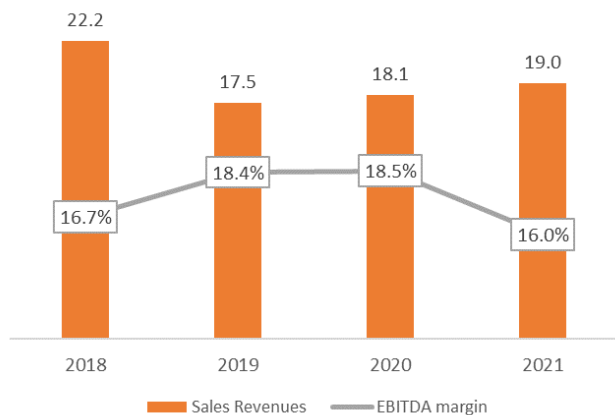
	Current price (€)	Fair Value (€)	Sector					Free Float (%)
	1.62	3.06	Semiconductor Testing					56.5%
Per Share Data	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E
Total shares outstanding (mn)	n.m.	n.m.	11.16	11.32	13.6	13.8	13.8	13.8
EPS	n.m.	n.m.	0.08	0.15	0.06	0.02	0.11	0.19
Dividend per share (ord)	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	23.3	33.6	39.4
EBITDA	2.8	3.8	3.4	3.5	3.2	2.6	4.8	6.6
EBIT	0.6	1.5	1.4	1.6	1.1	0.5	2.2	3.6
EBT	0.4	1.2	1.0	1.5	1.1	0.4	2.0	3.4
Taxes	(0.2)	(0.5)	(0.2)	0.2	(0.3)	(0.1)	(0.5)	(0.8)
Tax rate	47%	39%	17%	-16%	23%	23%	23%	23%
Net Income	0.2	0.8	0.8	1.7	0.9	0.3	1.5	2.6
Net Income attributable to the Group	0.2	0.8	0.8	1.7	0.9	0.3	1.5	2.6
Balance Sheet (EUR million)								
Total fixed assets	9.6	8.3	8.8	8.5	9.2	13.6	13.9	13.7
Net Working Capital (NWC)	4.0	4.4	6.6	6.3	8.0	13.1	10.5	10.7
Provisions	(1.3)	(1.3)	(0.9)	(0.9)	(0.9)	(2.0)	(2.6)	(3.3)
Total Net capital employed	12.4	11.4	14.6	13.9	16.3	24.6	21.8	21.1
Net financial position/(Cash)	6.6	4.9	2.1	(0.5)	(3.2)	4.4	0.1	(3.2)
Group Shareholder's Equity	5.8	6.5	12.5	14.4	19.5	20.1	21.7	24.3
Minorities	-	-	-	-	-	0.0	0.0	0.1
Total Shareholder's Equity	5.8	6.5	12.5	14.4	19.5	20.2	21.7	24.4
Cash Flow (EUR million)								
Net operating cash flow	-	3.3	3.1	3.8	2.9	2.5	4.3	5.7
Change in NWC	-	(0.4)	(2.2)	0.3	(1.7)	(2.6)	2.6	(0.2)
Capital expenditure	-	(0.7)	(2.4)	(2.1)	(2.4)	(3.5)	(2.9)	(2.9)
Other cash items/Uses of funds	-	0.3	0.6	0.6	0.4	0.4	0.6	0.7
Free cash flow	-	1.9	(2.0)	2.5	(1.6)	(7.9)	4.5	3.4
Enterprise Value (EUR million)								
Market Cap	n.a.	n.a.	51.8	34.0	47.9	22.3	22.3	22.3
Minorities	-	-	-	-	-	0.0	0.0	0.1
Net financial position/(Cash)	6.6	4.9	2.1	(0.5)	(3.2)	4.4	0.1	(3.2)
Enterprise value	n.a.	n.a.	53.9	33.5	44.7	26.8	22.4	19.2
Ratios								
EBITDA margin	19.4%	16.7%	18.4%	18.5%	16.0%	11.0%	14.3%	16.7%
EBIT margin	4.2%	6.5%	7.5%	8.2%	5.4%	2.1%	6.7%	9.2%
Gearing - Debt/equity	114.9%	74.5%	16.7%	-3.7%	-16.3%	21.9%	0.2%	-13.2%
Interest cover on EBIT	41.6%	16.0%	13.4%	6.7%	-4.3%	24.6%	10.8%	5.0%
NFP/EBITDA	2.4x	1.3x	0.6x	-0.1x	-1.0x	1.7x	0.0x	-0.5x
ROCE	4.9%	12.8%	9.4%	11.2%	6.6%	2.0%	10.3%	17.1%
ROE	3.2%	11.5%	6.7%	11.7%	4.4%	1.4%	7.0%	10.8%
EV/Sales	1.4x	0.9x	1.1x	1.1x	1.0x	0.9x	0.6x	0.5x
EV/EBITDA	7.2x	5.3x	6.0x	5.7x	6.4x	7.9x	4.2x	3.1x
P/E	120.8x	29.7x	26.7x	13.3x	26.1x	78.8x	14.7x	8.5x
Free cash flow yield	0.0%	9.6%	-10.1%	12.4%	-7.8%	-39.3%	22.5%	16.8%
Growth Rates (%)								
Sales	n.a.	57.0%	-19.4%	4.8%	3.4%	18.3%	43.9%	17.4%
EBITDA	n.a.	35.2%	-11.1%	5.1%	-10.4%	-18.8%	86.5%	37.8%
EBIT	n.a.	143.0%	-6.8%	13.9%	-31.2%	-53.9%	353.3%	61.7%
Net Income	n.a.	307.0%	11.3%	101.0%	-49.2%	-66.7%	435.9%	72.2%

Source: Company data, KT&Partners' elaboration

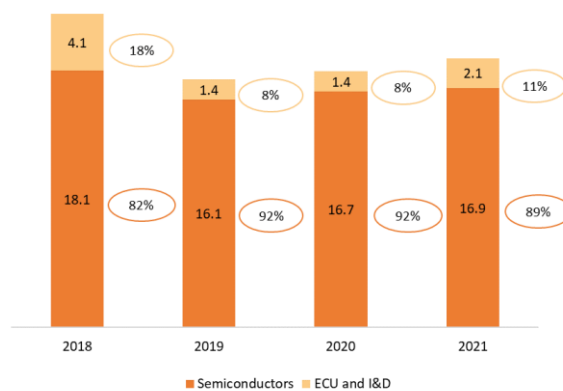
Note: FY20 net income benefitting from a €0.5mn tax advantage related to a property revaluation in accordance with Law Decree 104/202.

Key charts

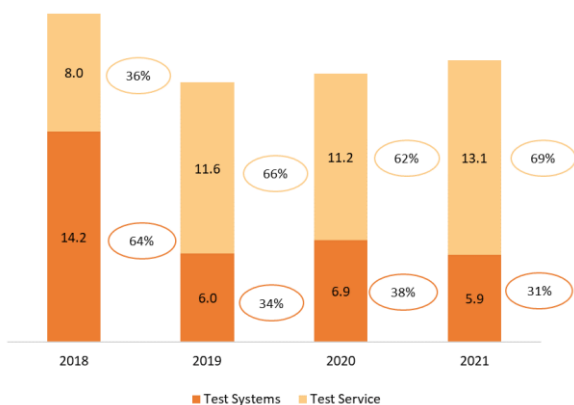
Sales Revenues and EBITDA margin (€mn, %)



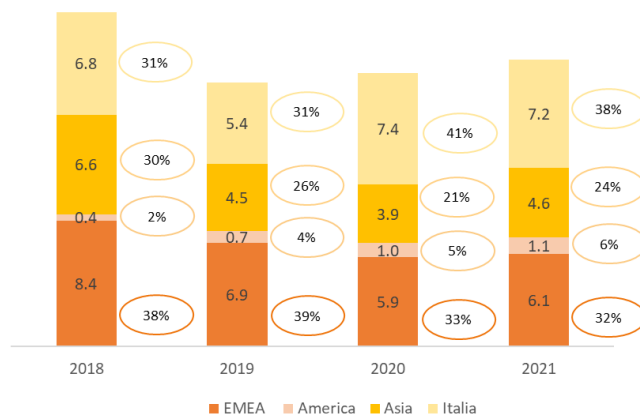
Sales Revenues by product line (€mn, %)



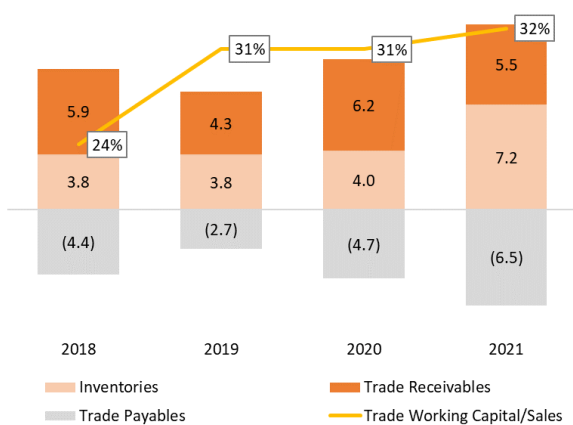
Semiconductors Sales revenues (€mn, %)



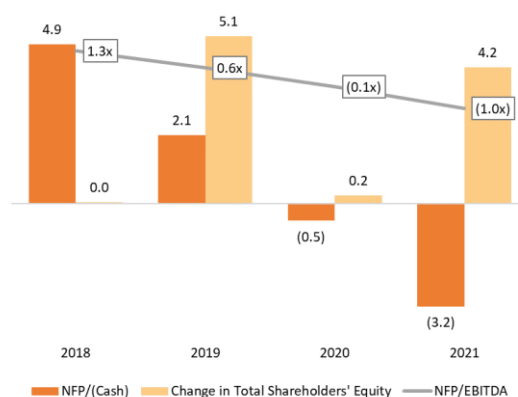
Sales Revenues by geographic area (€mn, %)



Trade Working Capital (€mn, %)



NFP, Change in Shareholders Equity 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 also produced 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 carrying out up to 80% of the functional testing during the Burn-In phase (*Test-During-Burn-In*) 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 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 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 testing machines solutions, ELES is able to meet market 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

- **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 recently 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 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).
- 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.

1H22 Financial Results

Nonetheless, raw material shortage that led to some procurement delays, with consequent production's slowdowns, in 1H22 sales revenues increased by 5% YoY to €10.1mn. 1H22 ELES performance was in line with our estimates (€10.2mn) and with the growth recorded by the Semiconductor Equipment Market (+5% YoY). Looking at ELES' business by product line, Semiconductor came in at €9.3mn, +9% YoY, mainly driven by Test Systems contribution. On the other side, Test Services weighted for 53% of sales, decreasing its weight by ca. 18pp, mainly factoring in the rescheduling of new product qualification activities by some clients, but with company's expectation to partially rebalance business' segments contribution by the end of the year. ECU business line accounted for ca. 7% of sales amounting to €0.8mn, decreasing by 31% YoY on the back of a drop in the Automotive segment due to chip shortage and war, only partially offset by the Aerospace and Defense positive performance.

ELES' 1H22 foreign sales increased its incidence on total sales at 79% (up by 14pp YoY), driven by new clients' acquisition in Europe and Taiwan and the recovery of sales also toward extra-EU countries.

Gross profit amounted to €5.7mn, decreasing by 6% YoY but in line with our expectations, with a 5pp gross margin reduction YoY (at 55.3%) mainly due to raw material shortage that, coupled with prices' increases following the beginning of the Ukrainian-Russian conflict, led to an increase in raw materials costs' incidence.

On profitability side, a higher incidence of services costs coupled with gross margin reduction resulted in an EBITDA margin of 10.3% (-8pp YoY but aligned with our forecasts). This was mainly due to i) chip shortage that led to an increase in costs starting from 2H21, ii) a different revenue mix toward lower profitable solutions (i.e., higher Test Systems incidence and new solutions launched that had not yet reached their full potential), iii) an increase in energy and transportation costs, that led to a growth in cost of services' incidence by 4pp, iv) higher business travel costs and strategic consultancy expenses to support ELES' development plan and v) lower other revenues following a decrease in R&D public grants. In absolute terms, 1H22 EBITDA amounted to €1.1mn, down by 42% YoY and slightly below our projections.

1H22 ELES' net income stood at €0.1mn (-84% YoY and -11% than our estimates), also negatively impacted from higher D&As on the back of the company's investment plan implementation.

Finally, 1H22 NFP decreased from a net cash position of €3.2mn at the end of FY21 to €1.2mn of net debt, following i) a higher NWC absorption that reflects the growing inventories to cope with raw materials' shortage and a temporary increase in DSO, with the shift in some trade receivables' cash-in in 2H22, and ii) €1.8mn of Capex, of which €1.3mn was for the development of innovative solutions, crucial for ELES to remain competitive in semiconductor arena.

1H20-1H22 Income Statement and NFP

€ million	1H20	1H21	1H22	YoY %	1H22E	A vs E %
Sales	8.3	9.7	10.1	4.5%	10.2	-0.6%
Other Revenues	0.4	0.4	0.3	-36.8%	0.2	20.8%
Total Revenues	8.7	10.1	10.3	2.9%	10.4	-0.2%
Products and Raw materials	(3.6)	(4.0)	(4.6)	16.0%	(4.6)	-0.2%
Gross Profit	5.1	6.1	5.7	-5.7%	5.7	-0.2%
<i>Gross Margin</i>	<i>58.9%</i>	<i>60.3%</i>	<i>55.3%</i>	<i>-5.0%</i>	<i>55.3%</i>	<i>0.0%</i>
Cost of Services	(1.6)	(1.9)	(2.4)	26.0%	(2.1)	12.4%
Personnel Expenses	(2.0)	(2.3)	(2.1)	-7.7%	(2.4)	-13.1%
Other Operating Expenses	(0.1)	(0.1)	(0.2)	105.6%	(0.1)	82.9%
EBITDA	1.4	1.8	1.1	-42.0%	1.1	-5.2%
<i>EBITDA margin</i>	<i>16.1%</i>	<i>18.3%</i>	<i>10.3%</i>	<i>-8.0%</i>	<i>10.8%</i>	<i>-0.5%</i>
D&A and Provisions	(0.8)	(0.8)	(0.9)	10.9%	(0.9)	4.2%
EBIT	0.6	1.0	0.1	-86.0%	0.2	-40.6%
<i>EBIT margin</i>	<i>7.2%</i>	<i>10.0%</i>	<i>1.4%</i>	<i>-8.6%</i>	<i>2.3%</i>	<i>-0.9%</i>
Financial Income and Expenses	0.0	(0.0)	0.1	n.m.	(0.0)	n.m.
Extraordinary items	0.0				0	
EBT	0.7	1.0	0.2	-76.1%	0.2	6.7%
Taxes	(0.2)	(0.2)	(0.1)	-50.8%	(0.1)	32.9%
<i>Tax Rate</i>	<i>33.2%</i>	<i>24.2%</i>	<i>49.8%</i>		<i>40.0%</i>	<i>9.8%</i>
Net Income	0.4	0.8	0.1	-84.2%	0.1	-10.7%
<i>Net margin</i>	<i>5.0%</i>	<i>7.5%</i>	<i>1.2%</i>	<i>-6.3%</i>	<i>1.3%</i>	<i>-0.1%</i>
NFP	2.4	(4.9)	1.2			

Source: Company Data (1H20-1H22), KT&P's Elaborations (1H22E)

Keep expanding through M&As

On October 13, 2022, ELES announced the closing of the acquisition of a 96% stake in CBL Electronics, strengthening its leadership in the mission-critical test applications. We remind that ELES announced the acquisition of the first 62.66% stake in May 2022, then announcing the acquisition of an additional 33.33% stake in July 2022. Based in Todi (PG), CBL Electronics – also through its subsidiary Laytech Srl – develops and manufactures hardware and software for testing semiconductors, boards, and electronic systems. The company also provides – through a highly-skilled team – research and development in testing field on behalf of leading companies in Aerospace and Defense segment.

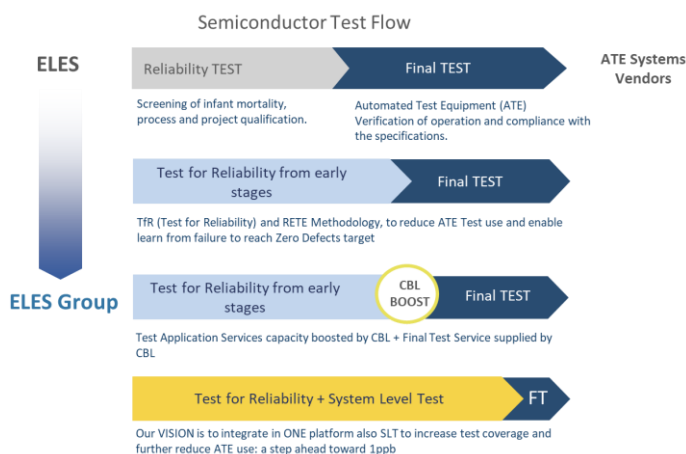
The deal consideration was fixed at €1.35mn (or an EV/EBITDA of 8.6x), of which €950k will be paid in cash, while the remaining €400k is expected to be paid through the issuing of new 158.8k ELES' shares, subject to a 3-year lock-up period. The remaining 4% of CBL shares – owned by the selling shareholders Massimiliano Bellucci and Andrea Cannavici – is subject to a put/call option (for a total consideration of €60k) expiring at the end of September 2023. Moreover, Massimiliano Bellucci is expected to be appointed to ELES' BoD and, if predetermined financial conditions are met, an earn-out of €400k is expected to be paid in 2023 to both the selling shareholders.

In 2021, the target company generated €9.1mn of VoP (with Sales revenues at ca. €7.8mn) and an EBITDA margin on sales at ca. 7%, with a NFP at €3.3mn. At the end of FY21, the combined entity would have reached ca. €27mn of revenues, experiencing a +41% on ELES' FY21 sales revenues.

This acquisition is expected to:

- further expand ELES' presence toward Aerospace and Defense, Naval, Automotive, and Consumer industries, with an undoubted competitive advantage on competitors thanks to **RETE methodology**. The acquisition is also expected to represent a strong diversification strategy: according to the management, the A&D contribution on ECU revenues is expected to increase from 5% in FY21 to **ca. 30%** post CBL's acquisition.
- enable cross- and up-selling strategies (on a new and enriched customer base) thanks to a more integrated and completed value chain, as providers of turnkey testing solutions from design to production;
- accelerate company's development process, widening and diversifying the offer of finished products and of new methods for testing – i.e., Design for Testability and Augmented-Reality experimentation – in the crucial Aerospace and Defense sector. Indeed, CBL expertise will enable ELES to boost its Test Application services capacity while opening to Final Test service' offer, ensuring a more integrated and complete offer on ATE platforms than before.

ELES – CBL Electronics incoming synergies

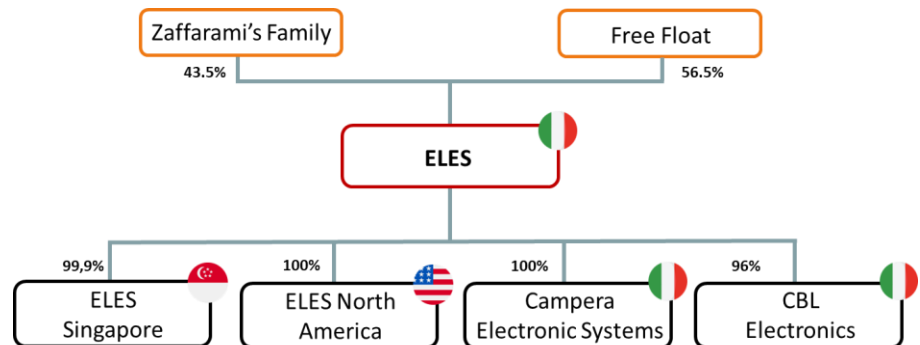


Source: Company presentation

We note that in 2021, European countries spent ca. €400bn in Defense, +20% if compared to 2012 investments, and that Italy on its own is expected to invest up to 2% of annual GDP in defense by 2028.

CBL Electronics represented the second acquisition of the year for ELES, after the takeover carried out in January 2022 of **Campera Electronic System** (for an undisclosed amount). The Italian company, based in Livorno – that since 2014 provides design and Intellectual Property (IP) for Video, Radar, Mission, and Safety Critical systems – widened and diversified ELES portfolio's offer in Aerospace and Defense.

ELES' Group structure



Source: Company data, KT&Partners' elaborations

Market Overview

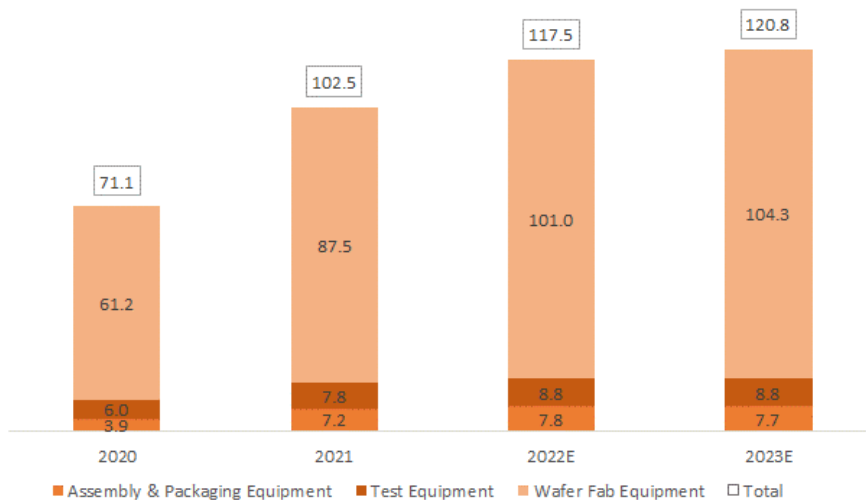
According to the latest research conducted by WSTS, in FY22 the global semiconductor market is expected to slow its growth path, increasing by +13.8% YoY (vs +26.4% in FY21), at \$633bn¹. Indeed, despite a faster-than-expected recovery in crucial end markets, such as automotive, coupled with the digitization path started with the pandemic, the semiconductor market is entering a period of weakness. The slowdown is mainly given by a decrease in consumer spending on electronics products like PCs and smartphones, factoring in rising inflation alongside higher taxes and interest rates, that are expected to worsen over the second half of the year.

This trend is further supported by Gartner's report² that projects the global semiconductor market to grow at a lower pace of +7.4% in 2022, declining by 2.5% in 2023, at \$623bn.

Furthermore, the unexpected boost in semiconductor demand during and after the pandemic also led to a serious chip shortage problem (exacerbated after the Ukrainian-Russian conflict), that caused an increase in production costs of ca. 20/30%, then shifted on listing prices³.

On the back of the Semiconductor market trend, Semiconductor Test Equipment – ELES' reference market – is expected to amount to \$8.8bn in 2022 (+12.8% YoY, vs an increase of 31% in FY21), then remain stable at ca. \$8.8bn in 2023, also considering the China- US trade frictions and the consequent possible procurements issues. We also note that the burn-in equipment segment is already expected to show a decline in 2022, decreasing by 3% with respect to FY21 (when it was valued at \$250mn)⁴.

Total Equipment Industry Forecast by Segment 2020-2023E (\$bn)



Source: SEMI, July 2022

Looking at the future, while the weight of the Consumer segment on total semiconductor market is expected to reduce, a better perspective comes from the data center market that is expected to remain resilient for longer (20% expected growth in 2022), backed by continuous cloud investments. The automotive segment, too (one of the main ELES' target markets), is expected to grow double-digit over the next three years, with semiconductor content per vehicle that is projected to increase from \$712 in 2022 to \$913 in 2025⁵.

¹ Source: WSTS News Release Spring 2021

² Source: Gartner, "Gartner Forecasts Worldwide Semiconductor Revenue Growth to Slow to 7% in 2022", July 2022

³ Source: Bloomberg

⁴ Source: SEMI, July 2022

⁵ Source: Gartner, "Gartner Forecasts Worldwide Semiconductor Revenue Growth to Slow to 7% in 2022", July 2022

Moreover, to cope with chip shortage in critical sectors – that also is expected to persist in 2023 – and rising inflation, the main countries (US, China, and UE) aim at reducing their high-risk dependance on other geographical areas through higher investments:

- In August 2022 Joe Biden approved the *Chip and Science Act*, that foresees \$52bn to be aimed at US semiconductor producers and tens of billions for the research;
- European Union approved, in February 2022, the *Chips Act*, allocating €43bn to double semiconductor production inside Europe by 2030, reducing the reliance on foreign countries;
- China approved the *IC Made in China* plan, with \$50bn to be invested by 2025.

Change in Estimates

On the back of 1H22 ELES results and the closing of the 96% stake acquisition in CBL, we revised our topline forecasts over the 2022E-2024E period, taking into consideration the incoming Group's opportunities thanks to i) further ELES' expansion presence toward Aerospace and Defense; ii) cross- and up-selling strategies thanks to a more integrated and complete value chain, increasing its share in ATE market (both burn-in and SoC segments), and iii) acceleration of the Group's development process, widening and diversifying the offer of finished products and of new methods for testing. On the other side, we also take into consideration the current semiconductors' market scenario, which is expected to a slowdown in the light of rising inflation coupled with a chip shortage also expected to persist in 2023. This led us to remain cautious with our estimates, foreseeing an organic growth slower than before.

Nonetheless, we note that, differently from the global semiconductor equipment test market – that is expected to be negatively impacted from US export chip restrictions toward China – ELES is not expected to be significantly affected by new regulations. Indeed, US restrictions involved Logic semiconductors with manufacturing nodes below 16 nanometers, while ELES' main analog products are based on manufacturing nodes above 16 nanometers, such as the solutions requested by one of its main clients, STMicroelectronics. Moreover, also taking into consideration the synergies coming from the acquired companies in the Group's business, we project ELES to grow at a higher pace than the market.

We anticipate FY22E total revenues at €23.3mn (vs prior €21.5mn), growing at a CAGR21–24E of 25.9% (vs 20.5% CAGR21-24E in our previous estimates), reaching €39.4mn in FY24. We note that we consider only 2 months' CBL contribution in FY22 (as the closing of the deal occurred in October) for €1.3mn of sales, while from 2023 onward the contribution is considered for the entire year.

Nonetheless CBL contribution and 1H22 EBITDA are almost in line with our estimates, we revised downward our projections on EBITDA, to factor in i) higher raw material costs, considering the chip shortage that is affecting the market, expected to persist until 2023, ii) a higher incidence of services' costs given the high uncertain macroeconomic scenario and iii) non-recurring costs to complete the industrialization of ART-MTX and SmART-MTX platforms. We now expect a FY22E EBITDA at €2.6mn (vs previous €2.9mn), reaching €6.6mn in FY24 (previously seen at €7.1mn) growing at CAGR21-24E of 27.8% (from the prior 31.2%).

On the profitability side we supposed an EBITDA margin dilution effect, taking into consideration CBL business characterized by lower marginality (7% on revenues) than ELES, but mitigated over the period thanks to Group synergies. As a result, we anticipate FY22E EBITDA margin to be at 11% (vs prior 13.7%), reaching 16.7% in FY24 (vs previous 20.7%).

At the bottom line, in FY22E we now forecast net income at €0.3mn, reaching €2.6mn in FY24E (+45.4% CAGR21-24E).

Finally, we foresee FY22E net financial position at €4.4mn, +€6.7mn compared to our old estimates mainly to reflect i) higher Capex following CBL's consolidation (ca. €4.3mn, net of payment in shares for €0.4mn) and for higher expected R&D investment given their importance for ELES' business (ca. €0.7mn), ii) higher NWC absorption, considering higher inventories to cope with raw materials' shortage (with a NWC/Sales incidence at 56%). After a 2023 still partially impacted by chip shortage crisis, we expect the following recovery to result in a better NWC management (NWC/Sales at 27% in FY24), with NFP turning positive in 2024, reaching a net cash position of €3.2mn.

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	21.5	23.3	8.6%	28.0	33.6	19.7%	34.5	39.4	14.2%	20.5%	25.9%
<i>YoY Change (%)</i>	-19.4%	4.8%	3.4%	8.9%	18.3%		30.6%	43.9%		23.0%	17.4%			
EBITDA	3.4	3.5	3.2	2.9	2.6	-12.8%	5.0	4.8	-3.8%	7.1	6.6	-7.6%	31.2%	27.8%
<i>YoY Change (%)</i>	-11.1%	5.1%	-10.4%	-7.0%	-18.8%		69.2%	86.5%		43.4%	37.8%			
<i>EBITDA Margin</i>	18.4%	18.5%	16.0%	13.7%	11.0%	-2.7%	17.7%	14.3%	-3.5%	20.7%	16.7%	-4.0%		
EBIT	1.4	1.6	1.1	0.9	0.5	-46.5%	2.6	2.2	-13.7%	4.4	3.6	-18.7%	60.7%	50.0%
<i>YoY Change (%)</i>	-6.8%	n.m.	-31.2%	-13.9%	-53.9%		181.3%	353.3%		71.5%	61.7%			
Net Income	0.8	1.7	0.9	0.6	0.3	-55.9%	1.9	1.5	-20.8%	3.4	2.6	-21.7%	57.8%	45.4%
<i>YoY Change (%)</i>	11.3%	n.m.	-49.2%	-24.4%	-66.7%		198.2%	435.9%		74.2%	72.2%			
NFP	2.1	(0.5)	(3.2)	(2.3)	4.4	6.7	(4.3)	0.1	4.4	(8.0)	(3.2)	4.8		

Source: Company data, KT&Partners' elaboration

Valuation

Following ELES' future financials projections, we have carried out our valuation using the multiples and DCF methods. Our valuation is based on 13.8mn of shares, as we included also 158.8k of shares to be issued for the projected payment in kind of €400k for CBL's acquisition.

Our fair value is the result of:

- **EV/EBITDA multiple:** with a 15% liquidity discount, which returns a value of €3.37ps;
- **DCF analysis** based on WACC of 12.4% and 2% perpetual growth, which returns a value of €2.75ps.

The average of the two methods yields a fair value of €3.06ps.

When valuing the company, we do not take into consideration **warrant dilution effect** (as in our previous research), as the warrant are currently out of the money (strike price €2.1ps).

Valuation Recap

	Equity Value €mn	Value per share €
DCF	37.94 €	2.75 €
EV/EBITDA	46.42 €	3.37 €
Average	42.18 €	3.06 €

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 considers our estimates of ELES' EBITDA for 2022, 2023, and 2024. We also considered FY21 NFP (-€3.2mn) adjusted for cash-out following CBL Electronics acquisition net of payment in-kind (€0.95mn).

We did not consider the P/E market multiples, as ELES' 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 €8mn 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	9,633	2.8x	2.4x	2.5x	2.4x	9.0x	7.1x	7.9x	6.9x	10.2x	7.8x	8.7x	7.9x	15.0x	11.2x	12.4x	11.2x
Aehr Test Systems	NASDAQ	593	11.2x	8.3x	5.5x	3.8x	n.m	n.m	19.7x	13.6x	n.m	n.m	20.3x	13.9x	n.m	38.3x	23.5x	19.7x
Chroma Ate Inc.	Taiwan	2,225	4.0x	3.4x	3.2x	3.0x	19.3x	12.6x	10.7x	10.3x	23.0x	14.3x	11.9x	11.4x	17.7x	15.3x	14.8x	14.1x
Teradyne, Inc.	NASDAQ	12,833	3.9x	3.9x	3.9x	3.3x	10.9x	12.8x	13.5x	10.2x	11.9x	14.4x	15.8x	11.5x	17.5x	20.2x	20.5x	14.7x
Average peer group		6,321	5.5x	4.5x	3.8x	3.1x	13.0x	10.8x	13.0x	10.2x	15.0x	12.2x	14.1x	11.2x	16.7x	21.2x	17.8x	14.9x
Median peer group		5,929	3.9x	3.7x	3.5x	3.2x	10.9x	12.6x	12.1x	10.2x	11.9x	14.3x	13.8x	11.4x	17.5x	17.7x	17.7x	14.4x
ELES S.p.A.	Milan	22	1.0x	0.9x	0.6x	0.5x	6.4x	7.9x	4.2x	3.1x	18.8x	40.9x	9.0x	5.6x	25.8x	78.8x	14.7x	8.5x

Source: FactSet, KT&Partners' Elaboration

EV/EBITDA Multiple Valuation

Multiple Valuation (€mn)	2022E	2023E	2024E
EV/EBITDA Comps	10.8x	13.0x	10.2x
ELES S.p.A. EBITDA	2.6	4.8	6.6
Enterprise value	27.8	62.0	67.5
Eles S.p.A. FY21 NFP Adj	(2.2)	(2.2)	(2.2)
Minorities FY21 Adjusted	0.0	0.0	0.0
Equity Value	30.0	64.2	69.6
Average Equity Value		54.6	
Liquidity/Size Discount		15%	
Equity Value Post-Discount		46.4	
Number of shares (mn)		13.8	
Value per Share €		3.37	

Source: FactSet, KT&Partners' elaboration

DCF Valuation

We have also performed our valuation using a four-year DCF model, based on an 12.9% cost of equity (vs the previous at 10.8%), 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 3.6% (Italian 10y BTP, from 2.3% in our previous research), 5.1% equity risk premium (Damodaran for a mature market) and a premium for size at 2.5%. We, therefore, obtained 12.4% WACC (+2pp from the previous research at 10.4%).

In our valuation, we also considered FY21 NFP adjusted for €0.4mn of cash-in from capital increase after the issuing of 158.8k of new shares.

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	0.5	2.2	3.6	6.3
Taxes	(0.1)	(0.5)	(0.8)	(1.5)
D&A	2.1	2.5	3.0	2.4
Change in Net Working Capital	(2.6)	2.6	(0.2)	(0.4)
Change in Funds	0.4	0.6	0.7	0.8
Net Operating Cash Flow	0.3	7.4	6.2	7.6
Organic Capex	(3.5)	(2.9)	(2.9)	(2.9)
M&A Capex	(4.7)	-	-	-
FCFO	(7.9)	4.5	3.4	4.8
g	2.0%			
Wacc	12.4%			
Discounted Cumulated FCFO	2.2			
TV	46.6			
TV (discounted)	32.2			
Enterprise Value	34.4			
FY21 NFP Adjusted	(3.6)			
Minorities Adjusted	0.0			
Equity Value	37.9			

Current number of shares (mn) 13.8

Value per share (€) **2.75**

Source: Company data, KT&Partners' elaboration

DCF Sensitivity Analysis

€ million	WACC					
Terminal growth rate		12.9%	12.6%	12.4%	12.1%	11.9%
	1.5%	34.5	35.4	36.3	37.3	38.3
	1.8%	35.2	36.1	37.1	38.1	39.2
	2.0%	36.0	36.9	37.9	39.0	40.1
	2.3%	36.7	37.8	38.8	39.9	41.1
	2.5%	37.6	38.6	39.7	40.9	42.1

Source: Company data, KT&Partners' elaboration

Appendix

Peer Comparison

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

- **Advantest Corp.:** listed on the Tokyo stock exchange with a market capitalization of €9.6bn, 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 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 on SoC;
 - Mechatronic segment that 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 that is involved in the customer solution, support, and equipment-leasing services;
- **Aehr Test Systems:** listed on NASDAQ with a market capitalization of €593mn, 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 €2.2bn, 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 €12.8bn, 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 that 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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- HOLD – FOR A FAIR VALUE <15% AND >-15% ON CURRENT PRICE
- REDUCE – FOR A FAIR VALUE < -15% ON CURRENT PRICE



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