

The Shortage Does Not Stop Eles' Growth

ADD | Fair Value: €3.06 (€3.06) | Current Price: €1.74 | Upside: +76%

€ 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

9M22 top-line results. On November 7th, 2022 Eles released 9M22 top-line results. Despite the chip shortage is still affecting the semiconductor market, the company reached €15.1mn of sales revenues, increasing by +20% compared to 9M21. The growth was also supported by the launch on the market of the new platforms ART MTX and smART MTX, that enabled Eles to consolidate its positioning as innovative technology player. Revenues coming from test services – Eles' countercyclical offer – amounted to €9.6mn (from €8.9mn in 9M21), contributing for 64% of total sales. Moreover, the company increased its presence abroad leveraging on new strategical orders, leading foreign sales to account for 77% of sales revenues (+6pp YoY).

9M21- 9M22 Sales Revenues

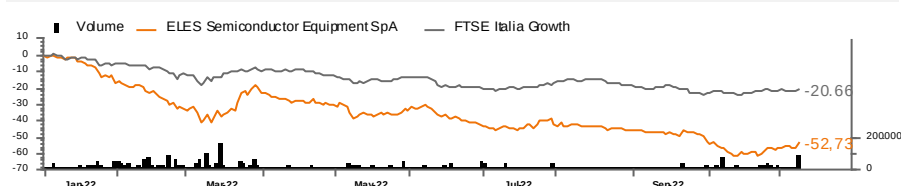
€ million	9M21	9M22	YoY %
Sales	12.5	15.1	+20%

Source: Company Data

New significant orders and development opportunities from RETE methodology. Thanks to the competitive advantage given by RETE methodology, in last two months Eles was selected as the most appropriate testing partner by three big players in semiconductor and Aerospace and Defense markets. Good growth perspectives are also expected in next months, thanks to the synergies coming from CBL and Campera full integration. Indeed, leveraging on RETE's methodology implementation on the acquired companies' offer, Eles is expected to develop new innovative turnkey solutions in A&D sector, gaining new market shares.

Estimates and valuation confirmed. In the light of 9M22 results in line with our estimates, we confirmed our previous projections (as of October 28th, 2022) and our valuation. We anticipate FY22E total revenues at €23.3mn – also including two months of CBL contribution with €1.3mn of sales – reaching €39.4mn at the end of FY24E, growing at +25.9% CAGR21-24E, faster than market thanks to acquired companies' integration. On profitability side, we foresee FY22E EBITDA margin at 11% (vs 16% in FY21) on the back of i) the persisting global shortage until 2023, ii) CBL's lower marginality and iii) non-recurring costs to complete the industrialization of the new launched platforms; then the EBITDA margin is expected to improve to 16.7% in 2024E mainly thanks to Group synergies. Finally, we project FY22E net income at €0.3mn (CAGR21-24E +45.4%), and FY22E NFP of €4.4mn, factoring in i) ca. €4.3mn of M&A Capex and ii) higher NWC absorption on inventory side. Our valuation – based on both DCF and multiple methods – returns an equity value of €42.2mn or a fair value of €3.06ps, implying a +76% on the current price.

YTD Relative Performance Chart



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)	24.0
EV (€ mn)	21.8
Shares issued (mn)	13.8
Free Float (%)	56.5%

Market multiples	2021	2022	2023
EV/EBITDA			
ELES	6.9x	8.5x	4.6x
Comps median	10.9x	12.6x	12.1x
ELES vs Median	-36%	-33%	-62%

Stock Data

52 Wk High (€)	3.90
52 Wk Low (€)	1.33
Avg. Daily Trading 90d	13,394
Price Change 1w (%)	8.4%
Price Change 1m (%)	-52.5%

Key Figures – ELES S.p.A.

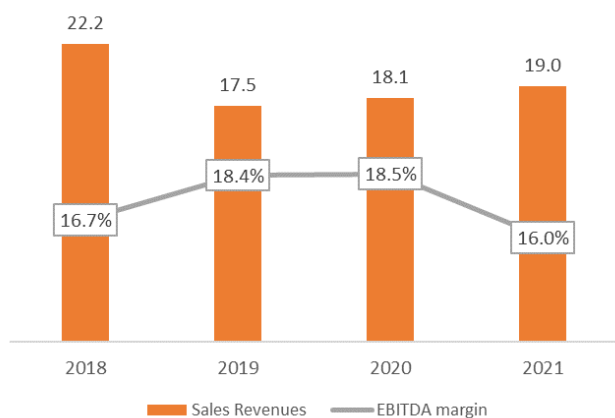
	Current price (€)	Fair Value (€)	Sector					Free Float (%)
	1.74	3.06	Semiconductor Testing					56.5%
Per Share Data	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E
Total shares outstanding (mn)	n.m.	n.m.	11.16	11.32	13.6	13.8	13.8	13.8
EPS	n.m.	n.m.	0.08	0.15	0.06	0.02	0.11	0.19
Dividend per share (ord)	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	24.0	24.0	24.0
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	28.5	24.1	20.9
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	1.5x	1.0x	1.2x	1.1x	1.1x	0.9x	0.7x	0.6x
EV/EBITDA	7.8x	5.8x	6.5x	6.2x	6.9x	8.5x	4.6x	3.3x
P/E	129.7x	31.9x	28.6x	14.3x	28.1x	84.7x	15.8x	9.2x
Free cash flow yield	0.0%	8.9%	-9.4%	11.4%	-7.2%	-36.3%	20.8%	15.6%
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

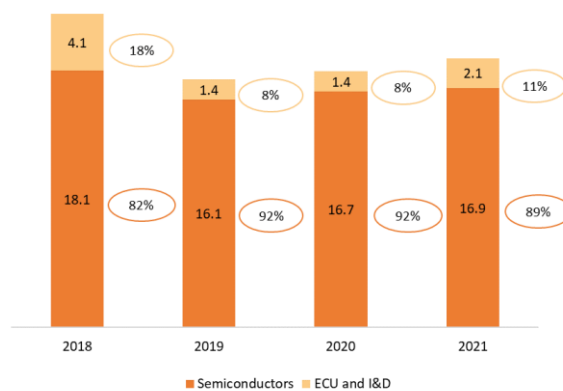
Note: FY20 net income benefitting from a €0.5mn tax advantage related to a property revaluation in accordance with Law Decree 104/202.

Key charts

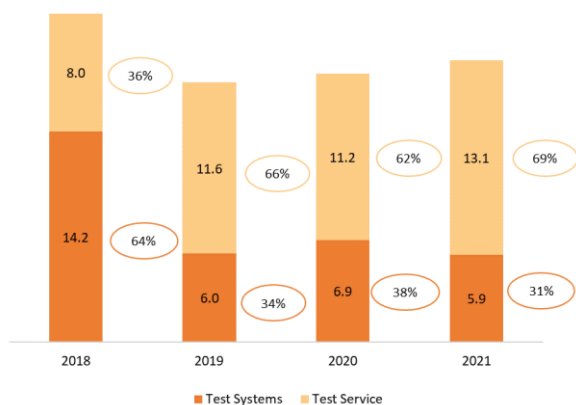
Sales Revenues and EBITDA margin (€mn, %)



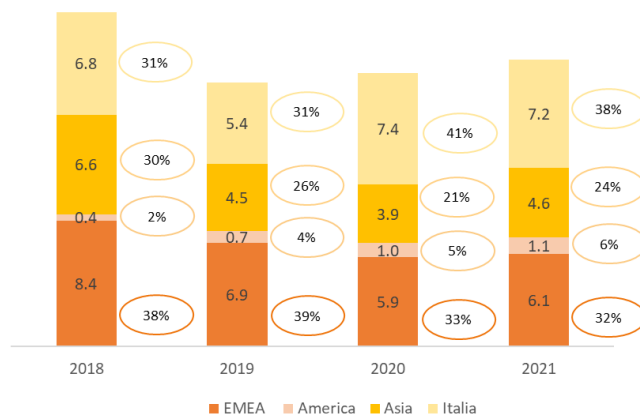
Sales Revenues by product line (€mn, %)



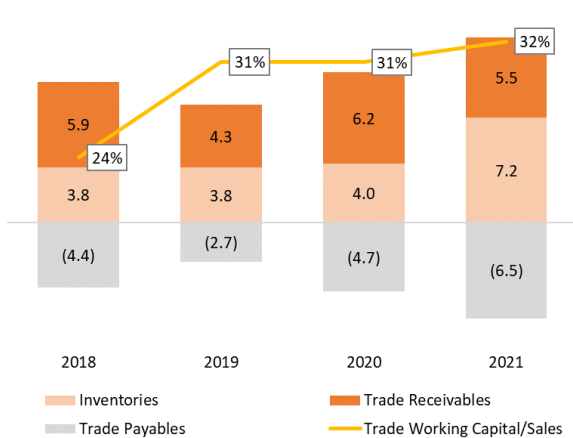
Semiconductors Sales revenues (€mn, %)



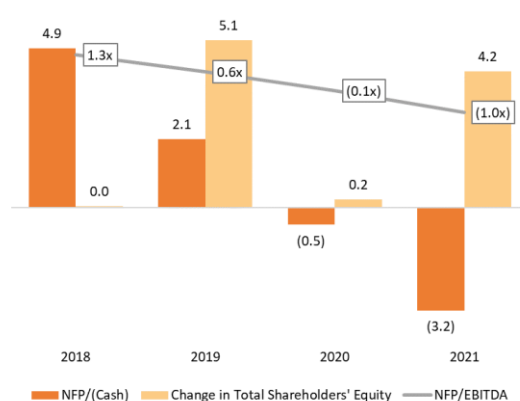
Sales Revenues by geographic area (€mn, %)



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

- **Gaining new orders and clients.** In September-November period, ELES strengthened its collaboration with historical clients through new orders from i) a leading European automotive applications devices manufacturer, ii) a major American semiconductor chips manufacturer. Moreover, ELES also reached with its solutions two new leading companies in A&D segment, confirming sector appreciation over ELES' offer and reliability.
- **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).
- **Acquisition of Campera Electronic Systems in January 2022.** Campera is a Livorno-based Company, operating in the Aerospace & Defense sectors since 2014, providing design and Intellectual Property (IP) for Video, Radar, Mission, and Safety Critical systems on the latest FPGA and System-on-Chip technologies.

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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



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