

Beating Our Estimates with Double-Digit Growth

ADD | Fair Value: €3.06 (€3.06) | Current Price: €1.83 | Upside: +67.2%

€ 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

Preliminary FY22 results. On February 20th, 2023 ELES released preliminary FY22 sales revenues. The company reached €26.1mn of sales (+14% than expected), showing an increase of +37% YoY mainly thanks to the contribution of the newly acquired companies Campera (from January 2022) and CBL Electronics (from October 2022). We note that our estimates i) were cautiously based on a two-months contribution from CBL Electronics (rather than three) and ii) could not envisage the actual demand rebound in the A&D market. Considering only ELES' organic growth, the company achieved €21.9mn, showing an increase of +15% YoY. Consolidated revenues coming from test services – ELES' countercyclical offer – amounted to €15.1mn (+15% YoY), contributing to 58% of total sales. Preliminary sales also confirmed ELES' strong presence abroad, with foreign sales accounting for ca. 61% of sales revenues.

ELES' Sales Revenues 2021–22 vs KT&Partners' Estimates

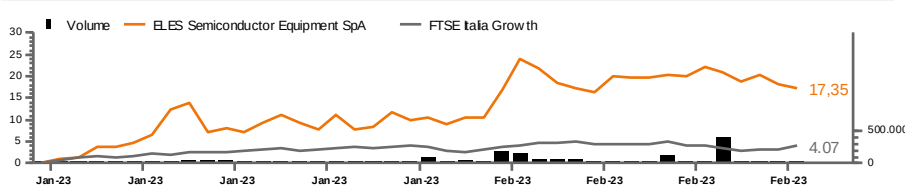
€ million	FY21	FY22	YoY %	FY22E	A vs E %
Sales	19.0	26.1	37%	22.9	14%

New resources to accelerate ELES' growth roadmap. On February 2nd, 2023, ELES approved a share capital increase – fully subscribed on February 3rd, 2023 – for 3.8mn newly issued shares or €6.5mn. The issuing price was fixed at €1.7ps, with a ca. 3% discount with respect to the company's average share price over the previous six months, a premium of approximately 2% on the average company's shares price over the previous three months and in line with the average price of ELES' shares in the month before the approval. The capital increase is expected to i) broaden the group's shareholder base with an increasing number of qualified investors – with NextStage AM, which increased its stake to 10.02% of total shareholder capital – while ii) providing the company with additional resources for R&D activities and external growth. We note that the capital increase, together with the fundings already obtained in 2H22, will provide the company with an additional €10mn to support ELES' growth strategy.

Sound growth perspectives despite a struggling market. According to WSTS, in 2022 the semiconductor market is expected to grow by 4.4% YoY at \$556.6bn, while in 2023 it is expected to decline by 4.1% YoY, mainly due to the rising inflation and a weaker demand from categories more exposed to consumer spending. The worldwide semiconductor test equipment market, according to SEMI, after a ca. 7% decline YoY in 2023, is then expected to rebound in 2024. We believe ELES will be able to mitigate this challenging scenario thanks to i) its residual presence in the consumer segment, and ii) a strong contribution from its anticyclical Test Services offer. Moreover, thanks to its growing presence in the A&D industry, ELES is also expected to benefit from the positive trends in the Aerospace segment – with the recovery of pre-pandemic global traffic levels in early 2024 and the implementation of new technologies for aircraft building – and in the Defense industry – with the leading countries increasing their defense budgets.

Estimates and valuation confirmed. While waiting for approval of the FY22 financial statements, we left unchanged our financial 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, implying +67.2% on the current price.

YTD Relative Performance Chart



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Research Update

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Market Data

Main Shareholders	
Zaffarami Antonio	24.0%
Franceschin Carla	6.2%
Zaffarami Francesca	3.9%
NextStage AM	10.0%
Mkt Cap (€ mn)	32.2
EV (€ mn)	30.1
Shares issued (mn)	13.8
Free Float (%)	66.0%

Market multiples	2021	2022	2023
EV/EBITDA			
ELES	9.5x	11.7x	6.3x
Comps median	10.9x	12.6x	12.1x
ELES vs Median	10%	-12%	116%

Stock Data

52 Wk High (€)	3.04
52 Wk Low (€)	1.33
Avg. Daily Trading 90d	31,212
Price Change 1w (%)	4.9%
Price Change 1m (%)	15.5%

Key Figures – ELES S.p.A.

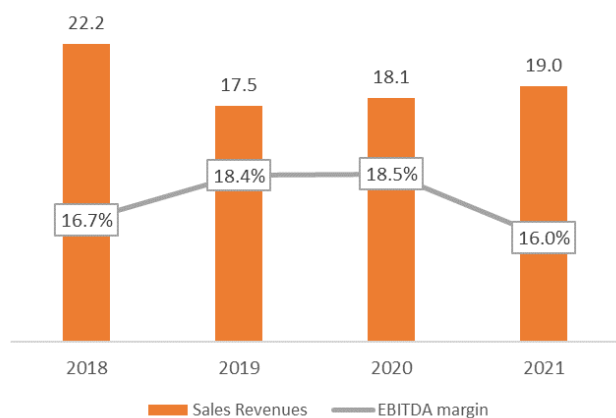
	Current price (€)	Fair Value (€)	Sector			Free Float (%)	
	1.83	3.06	Semiconductor Testing			66.0%	
Per Share Data	2018A	2019A	2020A	2021A	2022E	2023E	2024E
Total shares outstanding (mn)	n.m.	11.16	11.32	13.6	13.8	17.6	17.6
EPS	n.m.	0.08	0.15	0.06	0.02	0.09	0.15
Dividend per share (ord)	n.a.	n.a.	n.a.	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.
Profit and Loss (EUR million)							
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
EBIT	1.5	1.4	1.6	1.1	0.5	2.2	3.6
EBT	1.2	1.0	1.5	1.1	0.4	2.0	3.4
Taxes	(0.5)	(0.2)	0.2	(0.3)	(0.1)	(0.5)	(0.8)
Tax rate	39%	17%	-16%	23%	23%	23%	23%
Net Income	0.8	0.8	1.7	0.9	0.3	1.5	2.6
Net Income attributable to the Group	0.8	0.8	1.7	0.9	0.3	1.5	2.6
Balance Sheet (EUR million)							
Total fixed assets	8.3	8.8	8.5	9.2	13.6	13.9	13.7
Net Working Capital (NWC)	4.4	6.6	6.3	8.0	13.1	10.5	10.7
Provisions	(1.3)	(0.9)	(0.9)	(0.9)	(2.0)	(2.6)	(3.3)
Total Net capital employed	11.4	14.6	13.9	16.3	24.6	21.8	21.1
Net financial position/(Cash)	4.9	2.1	(0.5)	(3.2)	4.4	0.0	(3.2)
Group Shareholder's Equity	6.5	12.5	14.4	19.5	20.2	21.7	24.3
Minorities	-	-	-	-	0.0	0.0	0.1
Total Shareholder's Equity	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	0.4	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.	51.8	34.0	47.9	29.5	32.2	32.2
Minorities	-	-	-	-	0.0	0.0	0.1
Net financial position/(Cash)	4.9	2.1	(0.5)	(3.2)	4.4	0.0	(3.2)
Enterprise value	n.a.	53.9	33.5	44.7	33.9	32.3	29.1
Ratios							
EBITDA margin	16.7%	18.4%	18.5%	16.0%	11.0%	14.3%	16.7%
EBIT margin	6.5%	7.5%	8.2%	5.4%	2.1%	6.7%	9.2%
Gearing - Debt/equity	74.5%	16.7%	-3.7%	-16.3%	21.9%	0.2%	-13.2%
Interest cover on EBIT	16.0%	13.4%	6.7%	-4.3%	24.6%	10.8%	5.0%
NFP/EBITDA	1.3x	0.6x	-0.1x	-1.0x	1.7x	0.0x	-0.5x
ROCE	12.8%	9.4%	11.2%	6.6%	2.0%	10.3%	17.1%
ROE	11.5%	6.7%	11.7%	4.4%	1.4%	7.0%	10.8%
EV/Sales	1.3x	1.7x	1.6x	1.5x	1.3x	0.9x	0.8x
EV/EBITDA	8.0x	9.0x	8.5x	9.5x	11.7x	6.3x	4.6x
P/E	42.8x	38.5x	19.1x	37.7x	113.7x	21.2x	12.3x
Free cash flow yield	6.4%	-6.8%	8.3%	-5.2%	-26.4%	15.1%	11.3%
Growth Rates (%)							
Sales	57.0%	-19.4%	4.8%	3.4%	18.3%	43.9%	17.4%
EBITDA	35.2%	-11.1%	5.1%	-10.4%	-18.8%	86.5%	37.8%
EBIT	143.0%	-6.8%	13.9%	-31.2%	-53.9%	353.3%	61.7%
Net Income	307.0%	11.3%	101.0%	-49.2%	-66.7%	435.9%	72.2%

Source: Company data, KT&Partners' elaboration

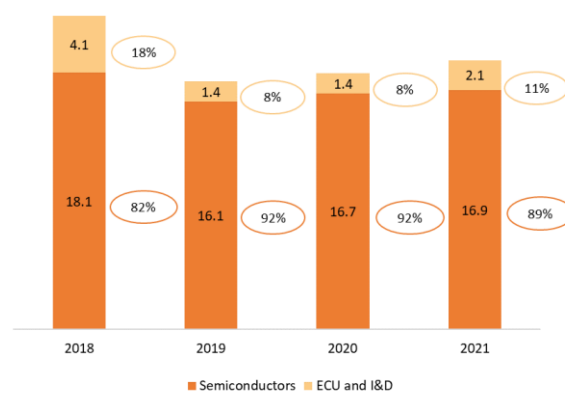
Note: FY20 net income benefitting from a €0.5mn tax advantage related to a property revaluation in accordance with Law Decree 104/202.

Key Charts

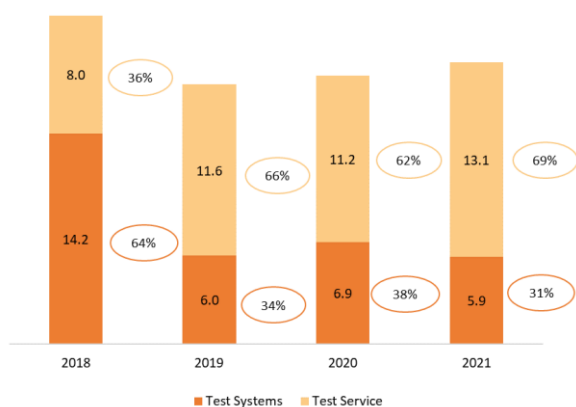
Sales Revenues and EBITDA Margin (€mn, %)



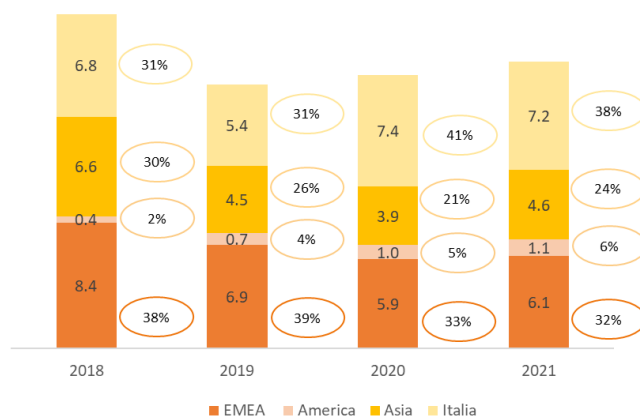
Sales Revenues by Product Line (€mn, %)



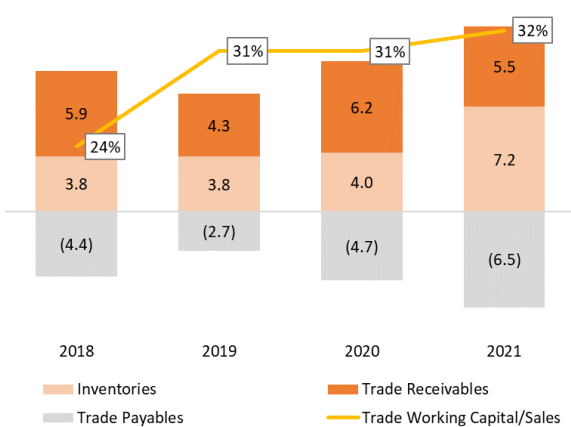
Semiconductors Sales Revenues (€mn, %)



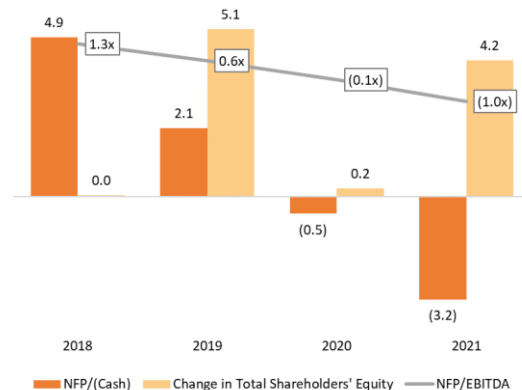
Sales Revenues by Geographic Area (€mn, %)



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

On June 19th, 2019, ELES became listed on EGM market, raising €6mn. Benefitting from 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 up to 80% of the functional testing to be carried out 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 machine-testing solutions, ELES is able to meet market needs and anticipate competitors’ moves.
- **Continued expansion of customer base and portfolio of orders.** Over the years, ELES has acquired new strategic clients in Europe, the Far East, the USA, and Israel, increasing its international presence while diversifying its customer base.
- **Setting the Italian Semiconductor Testing District.** Thanks to the new synergies and incoming experience following the acquisitions of Campera and CBL Electronics in January 2022 and October 2022, respectively, ELES aims to define the Italian innovation space that aggregates different semiconductor testing technologies, **providing a complete offer from design to production** on ATE platforms. The group has also strengthened its positioning in the crucial **A&D segment**, with an undoubted competitive advantage over competitors thanks to its RETE methodology.

Recent developments

- **Expanding its presence in the US Silicon Valley.** In February 2023, ELES announced it has signed a new partnership with a leading US Outsourced Semiconductor Assembly and Test (OSAT) specialized in chip qualification for mission-critical applications. Leveraging on the RETE methodology, ELES was selected as the only supplier able to guarantee the fast zero-defect roadmap. This collaboration will enable ELES to further expand its presence in the high-potential US market.
- **Enriching its shareholder base through a capital increase.** On February 2nd, 2023, ELES approved an increase in share capital – fully subscribed on February 3rd, 2023 – for 3.8mn newly issued shares or €6.5mn of total capital increase (€1.7ps). The capital increase enabled the company to broaden its shareholder base with an increasing number of qualified investors, leading the free float of the company to increase at ca. 66% from 56.5%. We note that NextStage AM increased its stake to 10.02% of total shareholder capital, now holding ca. 1.8mn of shares. Following the capital increase, Zaffarami’s

family owns 34% of the ordinary shares (previously 43.5%) and 38.2% of voting rights (previously 47.9%). The capital increase also provided the company with additional resources to support R&D activities and external growth.

- **In Italy the National chip hub takes shape.** In December 2022, the Italian Parliament approved the “Italian center for IC semiconductor design”, with the aim to develop and produce integrated circuits – becoming as independent as possible from foreign producers – also thanks to a wide hub of universities, research centers and enterprises promoting innovation in the microelectronics field. The law allocated an initial investment for the project of €10mn in 2023, growing at €25mn per year from 2024 to 2030, also assigning €5mn in the 2023–25 period for operational activities.
- **Gaining new orders and clients.** In September–November 2022, ELES strengthened its collaboration with historical clients through new orders from i) a leading European automotive applications devices manufacturer and ii) a major American semiconductor chips manufacturer. Moreover, ELES’ solutions also reached two new leading companies in the A&D segment, confirming the sector’s appreciation of 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 the 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.

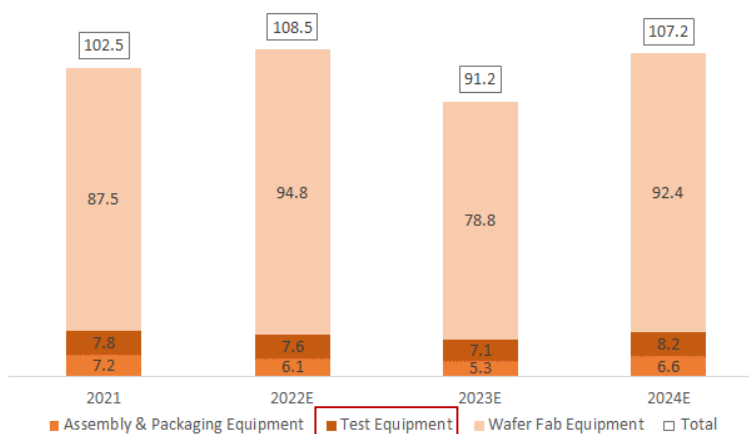
Market Update

Semiconductor Market

In 2022, the **global semiconductor market** is expected to grow at a slower pace than previously expected. Indeed, according to the most recent WSTS estimates¹ (updated in November 2022) the global 2022 semiconductor market growth is expected to slow to +4.4% (down with respect to the previous +13.8% YoY), for a total size of \$580bn. The downward revision is the result of growing inflation coupled with a consequent weaker demand, especially in segments more exposed to consumer spending. In 2023, the global semiconductor market is then expected to decline by 4.1% to \$557bn, driven by the negative performance of the Memory segment (-17% YoY).

On the other hand, 2022 is expected to be a bright year for **global semiconductor manufacturing equipment**.² Record fab constructions have driven total sales to cross the \$100bn mark for the second year in a row, at \$108.5bn (+5.9% YoY). However, in 2023, the challenging macroeconomic scenario is expected to negatively impact the semiconductor manufacturing equipment segment, with the global market declining by 15.9% to \$91.2bn, but with the Test Equipment segment – ELES' reference market – limiting its losses to 6.6%. The market is then expected to rebound in 2024 to \$107.2bn, achieving double-digit growth (17.5%).

Total Equipment Industry Forecast by Segment 2021–24E (\$bn)



Source: SEMI, December 2022

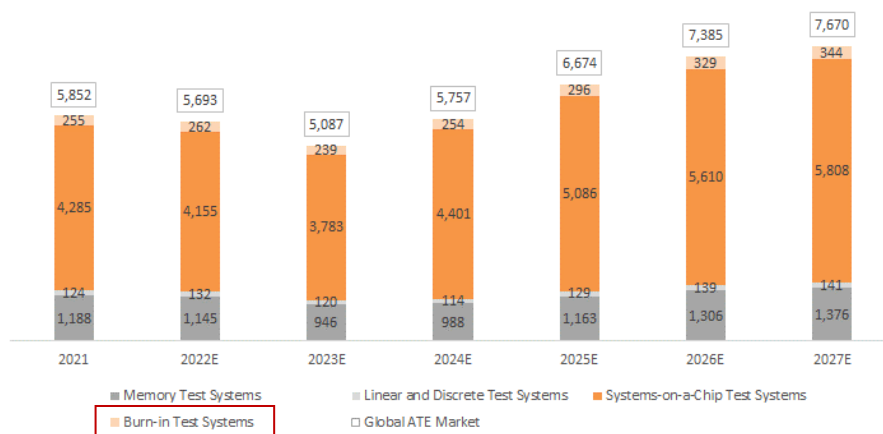
Focusing more on Automated Test Equipment (ATE),³ after a weak 2022 – where the market is anticipated to have decreased by 2.7% – in 2023 the market is expected to decline by more than 10%, then recover in 2024, almost coming back to 2021 levels at \$5.8bn. On the other hand, the Burn-in segment – one of ELES' main business target markets – is expected to increase by 3% in 2022 at \$262mn, then declining by 9% in 2023, then recovering at a CAGR22–27E of 5.6% to reach its peak of \$344mn at the end of 2027.

¹ Source: Semiconductor Market Forecast, WSTS, November 2022

² Source: "Global Total Semiconductor Equipment Sales Forecast to Reach Record High in 2022", SEMI, December 2022

³ Source: TechInsights, December 2022

Global ATE Market by Segment History and Forecast 2021–27E (\$mn)

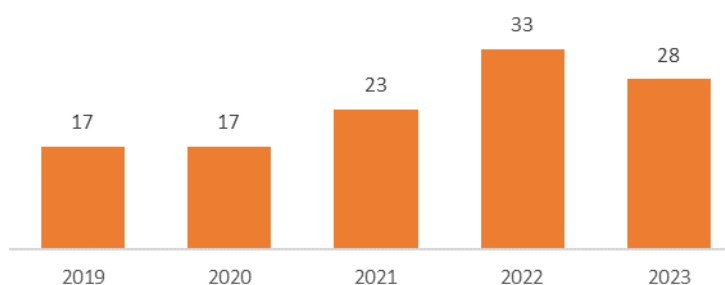


Source: TechInsights, December 2022

Meanwhile, the increasing importance of semiconductors has led many governments to invest in production capacity expansion for chip fabs and strengthening supply chains.⁴ SEMI forecasts that the worldwide semiconductor industry is projected to invest more than \$500bn in more than 80 chipmaking facilities whose construction started in 2021–22 or is expected to start in 2023:

- in the Americas, also thanks to the new funding provided by the US Chips and Science Act, 18 new semiconductor facilities are under construction or are planned to be realized in the period 2021–23;
- China is expected to be the first country in terms of the number of new chipmaking facilities, with 20 new fabs planned;
- Europe forecasted 17 new fabs in the period 2021–23, reaching an historic high;
- other Asian countries are projected to start construction of more than 20 new semiconductor fabs over the forecasted period.

New Semiconductor Facilities Starting Construction (#)



Source: World Fab forecast report, 4Q22 update, SEMI

Aerospace & Defense Market

The **Aerospace industry** showed strong signs of recovery in 2022. According to Deloitte,⁵ domestic traffic levels registered at more than 80% of pre-pandemic levels (as of September, 2022). Following the easing of travel restrictions outside national borders, **global passenger traffic achieved significant growth**, and leading global commercial aerospace OEMs forecast that it **will return to 2019 levels by the end of 2023 or early 2024**. On the other hand, 2022 was a year of war breaking out and growing inflation, which led to higher ticket prices coupled with a spike in jet fuel prices. The aim of aircraft manufacturers to invest in more fuel-efficient aircraft with lower operating costs, coupled with the full recovery of flight traffic, is expected

⁴ Source: "Global Chip Industry Projected to Invest More Than \$500 Billion in New Factory Construction Starts by 2024", SEMI, December 2022

⁵ Source: 2023 Aerospace and Defense Industry Outlook, Deloitte, 2022

to result in **strong production growth responding to growing orders, driving industry revenue in 2023.**

After a steady 2022, the **Defense market** is expected to overperform the aerospace segment, mainly on the back of the outbreak of war and rising fears of possible invasions, which have led all the major countries to **increase defense budgets**, boosting demand for military equipment. Indeed, the US 2023 budget highlighted i) perceived threats from China and Russia and ii) war and cybersecurity fears, while **European countries announced an increase in defense budgets of ca. \$204bn** in the first months after the outbreak of the war to address rising geopolitical tensions.

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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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