

Better-than-Expected FY22, Still Cautious for FY23E

ADD | Fair Value: €3.44 (€3.06) | Current Price: €1.52 | Upside: +127%

€ Million	FY18A	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Total Revenues	22.6	18.2	19.1	19.7	26.9	33.6	39.4	47.1
EBITDA	3.8	3.4	3.5	3.2	3.5	4.8	6.6	8.7
margin	16.7%	18.4%	18.5%	16.0%	13.1%	14.3%	16.7%	18.5%
Net Profit	0.8	0.8	1.7	0.9	0.7	1.4	2.6	3.9
margin	3.3%	4.6%	8.8%	4.3%	2.4%	4.2%	6.6%	8.3%
EPS	n.a.	0.08	0.15	0.06	0.05	0.08	0.15	0.22
NFP/(Cash)	4.9	2.1	(0.5)	(3.2)	7.9	(0.4)	(3.5)	(6.5)

Source: Company data, KT&Partners' elaboration

FY22 financial results. In FY22, ELES's sales revenues reached €26.1mn, increasing by 37.2% YoY, mainly thanks to i) the contribution from the newly acquired companies, ii) the significant organic growth of +15% YoY, also driven by the launch of two new platforms, confirming the Group's ability to successfully cope with the raw material shortage and the production slowdown. Moreover, ELES beat our expectations by 14%, as our estimates i) were cautiously based on a two-months contribution from CBL Electronics (rather than three) and ii) not able to envisage the actual demand rebound in the A&D market. 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 13.1% (-3pp YoY but 2.1pp above our estimate). In absolute terms, EBITDA came in at €3.5mn, +11.2% YoY and +37.1% on our projections. Finally, net income stood at €0.7mn (-23.6% YoY) negatively impacted by higher D&As and taxes, and net debt amounted to €7.9mn, mainly on the back of a higher NWC absorption and of €6.2mn attributable to CBL and Campera consolidation.

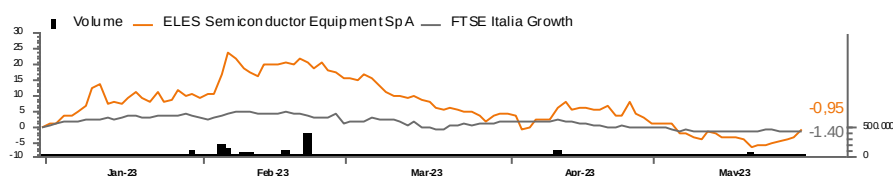
1Q23 financial KPIs and CBL acquisition update. On May 23, 2023, ELES released 1Q23 sales revenues. The company reached €6.3mn of sales, +36% YoY driven by CBL Electronics consolidation. Considering only organic growth, the company registered €4.9mn (+6% YoY). Test Services' revenues achieved a triple-digit growth (+144% YoY) at €5.1mn, accounting for more than 80% of sales following the increase in SEMI installed base and the contribution of services related to the new launched platforms, alongside the strong growth in A&D sector and thanks also to the consolidation of CBL Electronics. Exports still account for the most, representing the 60% of consolidated sales revenues. The BoD also approved acquiring the remaining 4% stake in CBL Electronics for €60k and verified the achievement of the objectives for the recognition of €0.4mn due to CBL sellers as earn-out.

New strategic partnership with UniPG and Fraunhofer. In May 2023, ELES signed a strategic partnership with the University of Perugia and the Fraunhofer Institute for Electronic Nano Systems (ENAS), The German institute qualified in the intelligence system field and in their integrations. This collaboration is expected to improve the reliability of devices and semiconductor systems, leveraging on an innovative model that combines device-oriented technologies with data-oriented ones.

Change in estimates. On the back of FY22 results, we confirmed our previous estimates on the income statement side. We foresee FY23E total revenues at €33.6mn, growing at a +20.5% CAGR22-25E, leveraging on a strengthened presence in the A&D market coupled with an acceleration in Group's development process. EBITDA margin is expected to improve from 14.3% in FY23E, considering the persisting global shortage on some chips' components until 2023, to 18.5% in FY25E. Finally, we project FY23E net income at €1.4mn (CAGR22-25E +81.4%), and a FY23E net cash position of €0.4mn, also including the cash-in of €6.5mn from the capital increase and considering a higher NWC absorption.

Valuation. Our valuation – based on both DCF and multiple methods – returns an equity value of €60.6mn or a fair value of €3.44ps, implying +127% on the current price.

YTD Relative Performance Chart



Research Update

May 31, 2023 – 7.00 h

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Market Data

Main Shareholders	
Zaffarini Antonio	24.0%
Franceschin Carla	6.2%
Zaffarini Francesca	3.9%
NextStage AM	10.0%
Mkt Cap (€ mn)	26.7
EV (€ mn)	26.7
Shares issued (mn)	17.6
Free Float (%)	66.0%

Market multiples	2022	2023	2024
EV/EBITDA			
ELES	7.6x	5.6x	4.0x
Comps median	13.6x	17.6x	14.2x
ELES vs Median	-44%	-68%	-72%

P/E			
ELES	32.0x	18.9x	10.3x
Comps median	19.0x	29.7x	20.4x
ELES vs Median	68%	-36%	-50%

Stock Data

52 Wk High (€)	2.65
52 Wk Low (€)	1.33
Avg. Daily Trading 90d	19,226
Price Change 1w (%)	-5.3%
Price Change 1m (%)	-4.4%

Key Figures – ELES S.p.A.

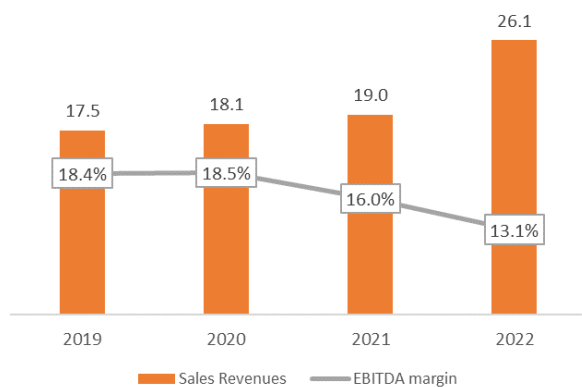
	Current price (€)	Fair Value (€)	Sector					Free Float (%)
	1.52	3.44	Semiconductor Testing					66.0%
Per Share Data	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E
Total shares outstanding (mn)	n.m.	11.16	11.32	13.6	13.8	17.6	17.6	17.6
EPS	n.m.	0.08	0.15	0.06	0.05	0.08	0.15	0.22
Dividend per share (ord)	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	22.6	18.2	19.1	19.7	26.9	33.6	39.4	47.1
EBITDA	3.8	3.4	3.5	3.2	3.5	4.8	6.6	8.7
EBIT	1.5	1.4	1.6	1.1	1.2	2.4	3.8	5.5
EBT	1.2	1.0	1.5	1.1	1.0	1.8	3.4	5.1
Taxes	(0.5)	(0.2)	0.2	(0.3)	(0.4)	(0.4)	(0.8)	(1.2)
Tax rate	39%	17%	-16%	23%	35%	23%	23%	23%
Net Income	0.8	0.8	1.7	0.9	0.7	1.4	2.6	3.9
Net Income attributable to the Group	0.8	0.8	1.7	0.9	0.7	1.4	2.6	3.9
Balance Sheet (EUR million)								
Total fixed assets	8.3	8.8	8.5	9.2	16.7	17.5	17.9	17.9
Net Working Capital (NWC)	4.4	6.6	6.3	8.0	13.5	13.1	13.2	15.0
Provisions	(1.3)	(0.9)	(0.9)	(0.9)	(1.7)	(2.5)	(3.4)	(4.4)
Total Net capital employed	11.4	14.6	13.9	16.3	28.5	28.1	27.7	28.5
Net financial position/(Cash)	4.9	2.1	(0.5)	(3.2)	7.9	(0.4)	(3.5)	(6.5)
Group Shareholder's Equity	6.5	12.5	14.4	19.5	20.6	28.5	31.1	35.0
Minorities	-	-	-	-	-	-	-	-
Total Shareholder's Equity	6.5	12.5	14.4	19.5	20.6	28.5	31.1	35.0
Cash Flow (EUR million)								
Net operating cash flow	3.3	3.1	3.8	2.9	3.1	4.2	5.7	7.4
Change in NWC	(0.4)	(2.2)	0.3	(1.7)	(5.5)	0.4	(0.1)	(1.9)
Capital expenditure	(0.7)	(2.4)	(2.1)	(2.4)	(9.5)	(2.9)	(2.9)	(2.9)
Other cash items/Uses of funds	-	0.3	0.6	0.4	0.5	0.5	0.6	0.6
Free cash flow	1.9	(2.0)	2.5	(1.6)	(11.4)	2.3	3.3	3.4
Enterprise Value (EUR million)								
Market Cap	n.a.	51.8	34.0	47.9	29.5	26.7	26.7	26.7
Minorities	-	-	-	-	-	-	-	-
Net financial position/(Cash)	4.9	2.1	(0.5)	(3.2)	7.9	(0.4)	(3.5)	(6.5)
Enterprise value	n.a.	53.9	33.5	44.7	37.3	26.3	23.2	20.2
Ratios								
EBITDA margin	16.7%	18.4%	18.5%	16.0%	13.1%	14.3%	16.7%	18.5%
EBIT margin	6.5%	7.5%	8.2%	5.4%	4.5%	7.3%	9.6%	11.6%
Gearing - Debt/equity	74.5%	16.7%	-3.7%	-16.3%	38.3%	-1.5%	-11.1%	-18.6%
Interest cover on EBIT	16.0%	13.4%	6.7%	-4.3%	16.4%	24.3%	10.5%	7.0%
NFP/EBITDA	1.3x	0.6x	-0.1x	-1.0x	2.2x	-0.1x	-0.5x	-0.7x
ROCE	12.8%	9.4%	11.2%	6.6%	4.2%	8.7%	13.7%	19.2%
ROE	11.5%	6.7%	11.7%	4.4%	3.2%	5.0%	8.4%	11.1%
EV/Sales	1.2x	1.5x	1.4x	1.4x	1.0x	0.8x	0.7x	0.6x
EV/EBITDA	7.1x	7.9x	7.6x	8.4x	7.6x	5.6x	4.0x	3.1x
P/E	35.4x	31.9x	10.2x	24.2x	32.0x	18.9x	10.3x	6.8x
Free cash flow yield	7.2%	-7.7%	9.3%	-5.9%	-42.7%	8.5%	12.5%	12.6%
Growth Rates (%)								
Sales	57.0%	-19.4%	4.8%	3.4%	36.5%	24.7%	17.4%	19.5%
EBITDA	35.2%	-11.1%	5.1%	-10.4%	11.2%	36.1%	37.8%	32.2%
EBIT	143.0%	-6.8%	13.9%	-31.2%	12.1%	102.9%	55.8%	44.1%
Net Income	307.0%	11.3%	101.0%	-49.2%	-23.6%	116.3%	84.2%	49.8%

Source: Company data, KT&Partners' elaboration

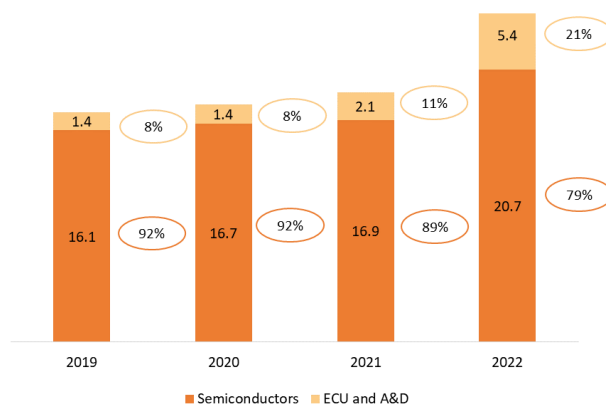
Note: FY20 net income benefitting from a €0.5mn tax advantage related to a property revaluation in accordance with Law Decree 104/202.

Key Charts

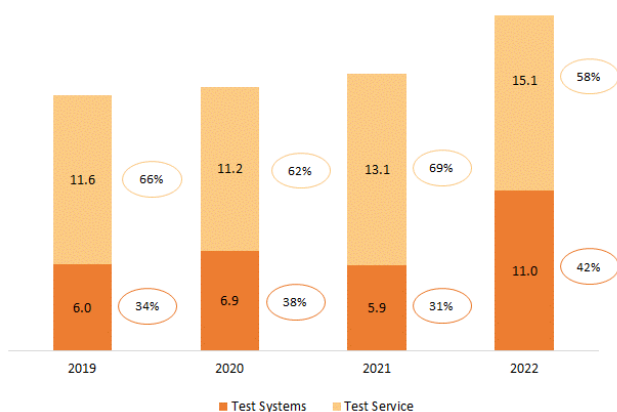
Sales Revenues and EBITDA Margin (€mn, %)



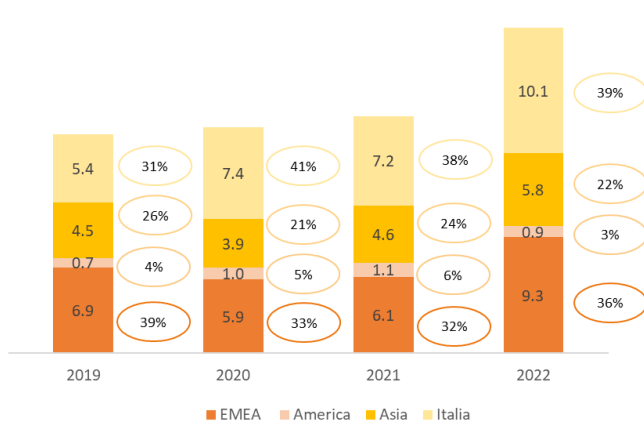
Sales Revenues by Product Line (€mn, %)



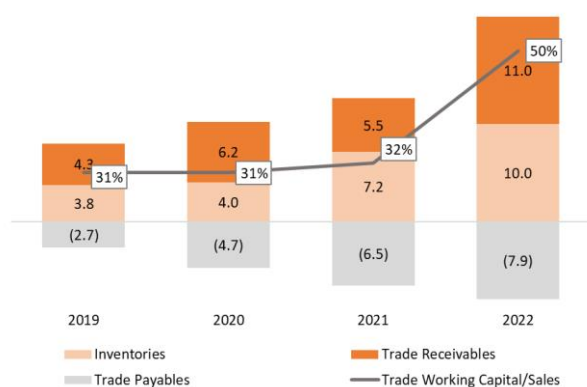
Semiconductors Sales Revenues (€mn, %)



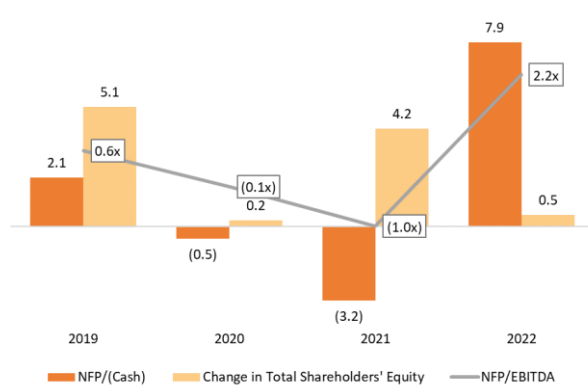
Sales Revenues by Geographic Area (€mn, %)



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 for Reliability 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 introduced its solutions in the testing market for Electronic Control Units (ECU) for the Automotive and Aerospace & Defense industries.

On June 19, 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-for Reliability*) 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 TfR 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

- **European AI chooses ELES: new order from a new leading European chip developer.** In April 2023, ELES announced having gained a new order for the “test ART LC2F” system from a leading European developer of artificial intelligence and data management chips. The new solution is expected to be delivered by 2023 and will be featured from a high-power of 1500w. Thanks to its unique offer, ELES' is the only player in the world able to deliver solutions able to respond to these requirements.
- **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 2, 2023, ELES approved an increase in share capital – fully subscribed on February 3, 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 stake reached 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 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).
- **Eles (Shanghai) International Trade Co. Ltd establishment.** In February 2022, ELES established Eles International Trade Co. Ltd, 100% owned by ELES. The Chinese-based company was established with the aim to ensure a direct presence in the Chinese market, facilitating the distribution process and the required technical assistance on ELES' solutions. We note that as of May 2023, the company was not yet operative.
- **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.

FY22 Financial Results

In FY22 ELES' sales revenues came in at €26.1mn, +37.2% YoY. FY22 Sales revenues growth was backed by i) the three months' contribution coming from CBL Electronics, acquired in October 2022, and ii) the full-year contribution from Campera, acquired in January 2022. ELES sales revenues stood above our projection by 14% as 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 that led to a higher-than-expected contribution coming from ECU segment. Considering only ELES' organic growth – i.e., without considering the contribution coming from companies acquired in FY22 – sales revenues would have amounted to €21.9mn, experiencing a +15% YoY. The significant stand-alone growth confirms the Group's ability to successfully face the raw materials shortage and the production's slowdown, and was also supported by the launch of two new platforms:

- ART MTX, platform for production testing of high-power devices for Automotive applications;
- smART MTX, qualification platform for smart power devices for automotive and industrial applications, including new technologies used in electric vehicles (i.e., SiC and GaN).

Looking at ELES' business by product line, Semiconductor came in at €20.7mn, +22.6% YoY, compared to an annual decrease of the global automates test equipment (ATE) market – ELES' reference market – of ca. 3%¹. The ECU business line accounted for ca. 21% of sales, amounting to €5.4mn, registering a triple-digit growth (more than +150% YoY) driven by the two acquisition (with a contribution of ca €4mn) that have also benefitted from the positive performance of the Aerospace and Defense segment, connected to Defense-planned investments in Italy and in the main European countries.

Test Services – ELES' countercyclical offer – grew by 15% YoY weighting for 58% of sales, -11pp compared to FY21, mainly factoring in the rescheduling of new product qualification activities by some clients.

FY22 foreign sales remained almost stable at 61% (vs 60% in 2021), with EMEA representing the bulk of foreign revenues (35.7%). Nonetheless, the company continued to expand its presence in foreign markets, too, with new clients in Europe and Israel.

Gross profit amounted to €15.1mn, increasing by 27.6% YoY and 9.4pp above our estimates, with a gross margin at 56%, 3.9pp and 3.1pp below FY21 values and our expectations, mainly due to raw-material shortage.

On the profitability side, the gross margin reduction, coupled with a higher incidence of services costs, resulted in an EBITDA margin of 13.1%, -3pp YoY (but 2.1pp above our estimates). This was mainly due to i) the chip shortage that led to an increase in costs starting from 2H21, alongside 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). In absolute terms, FY22 EBITDA amounted to €3.5mn, experiencing a +11.2% YoY and being 37.1% above our estimates.

FY22 ELES' net income stood at €0.7mn (-23.6% YoY and -11% than our estimates), also negatively impacted from higher-than-expected D&As on the back of the company's investment plan implementation and higher taxes, with a tax rate at 35% (vs 23.5% in FY21).

Finally, FY22 NFP worsened from a net cash position of €3.2mn at the end of FY21 to €7.9mn of net debt (vs €4.4mn expected), following i) a higher TWC absorption that reflects the growing inventories to cope with raw materials' shortage and an increase in DSO, factoring in a significant revenues concentration in the last months of the year, alongside higher DSO that

¹ Source: TechInsights, December 2022

characterized the A&D segment, ii) €2.3mn of R&D Capex for the development of innovative solutions and iii) €6.2mn attributable to CBL and Campera consolidation.

FY20-FY22 Income Statement

€ million	FY20	FY21	FY22	YoY %	FY22E	A vs E %
Sales	18.1	19.0	26.1	37.2%	22.9	14.0%
Other Revenues	1.0	0.7	0.8	18.5%	0.5	83.6%
Total Revenues	19.1	19.7	26.9	36.5%	23.3	15.4%
Products and Raw materials	(7.6)	(7.9)	(11.9)	49.8%	(9.6)	24.0%
Gross Profit	11.5	11.8	15.1	27.6%	13.8	9.4%
<i>Gross Margin</i>	<i>60.2%</i>	<i>59.9%</i>	<i>56.0%</i>	<i>-3.9%</i>	<i>59.0%</i>	<i>-3.1%</i>
Cost of Services	(3.7)	(4.1)	(5.8)	40.6%	(5.3)	9.4%
Personnel Expenses	(4.0)	(4.3)	(5.2)	22.7%	(5.5)	-4.7%
Other Operating Expenses	(0.2)	(0.3)	(0.5)	101.6%	(0.4)	25.2%
EBITDA	3.5	3.2	3.5	11.2%	2.6	37.1%
<i>EBITDA margin</i>	<i>18.5%</i>	<i>16.0%</i>	<i>13.1%</i>	<i>-3.0%</i>	<i>11.0%</i>	<i>2.1%</i>
D&A and Provisions	(2.0)	(2.1)	(2.3)	10.7%	(2.1)	11.7%
EBIT	1.6	1.1	1.2	12.2%	0.5	143.6%
<i>EBIT margin</i>	<i>8.2%</i>	<i>5.4%</i>	<i>4.5%</i>	<i>-1.0%</i>	<i>2.1%</i>	<i>2.3%</i>
Financial Income and Expenses	(0.1)	0.0	(0.2)	n.m.	(0.1)	
Extraordinary items	0.0	0.0	0.0			
EBT	1.5	1.1	1.0	-10.0%	0.4	170.0%
Taxes	0.2	(0.3)	(0.4)	34.0%	(0.1)	302.1%
<i>Tax Rate</i>	<i>-16.1%</i>	<i>23.5%</i>	<i>34.9%</i>		<i>23.5%</i>	<i>11.5%</i>
Net Income	1.7	0.9	0.7	-23.5%	0.3	129.6%
<i>Net margin</i>	<i>8.8%</i>	<i>4.3%</i>	<i>2.4%</i>	<i>-1.9%</i>	<i>1.2%</i>	<i>1.2%</i>

Source: Company Data (FY20-FY22), KT&P's Elaborations (FY22E)

FY20-FY22 Balance Sheet

€ mn	FY20A	FY21	FY22	FY22E
Goodwill	0.0	0.0	0.6	0.4
Intangible	4.3	4.9	8.6	8.3
Tangible	3.8	3.8	7.1	4.2
Other LT Assets	0.4	0.4	0.5	0.7
Fixed Assets	8.5	9.2	16.7	13.6
Trade receivables	6.2	5.5	11.0	9.2
Inventory	4.0	7.2	10.0	9.3
Trade Payables	(4.7)	(6.5)	(7.9)	(7.0)
Trade Working Capital	5.5	6.1	13.1	11.5
Other assets and liabilities	0.8	1.9	0.4	1.6
Net Working Capital	6.3	8.0	13.5	13.1
Other Provisions	(0.9)	(0.9)	(1.7)	(2.0)
Net Capital Employed	13.9	16.3	28.5	24.6
Total shareholders' equity	14.4	19.5	20.6	20.2
Short-term debt / Cash (-)	(8.9)	(9.2)	(8.5)	(1.7)
Long-term liabilities	8.4	6.1	16.4	6.1
Net Financial Position	(0.5)	(3.2)	7.9	4.4
Sources	13.9	16.3	28.5	24.6

Source: Company Data (FY20-FY22), KT&P's Elaborations (FY22E)

Change in Estimates

On the back of FY22 ELES results, we confirmed our top-line estimates over the 2023E-2025E period, also considering that the overperformance of the company in 2022 was the combined result of the consolidation of a two-months period for CBL Electronics (instead of the effective three) alongside the rebound of the A&D segment in the last month of the year. Our estimates are supported by several incoming Group's opportunities, as:

- strengthening of ELES' presence in the growing Aerospace and Defense market through CBL and Campera unique and innovative solutions. Indeed, the expectations for A&D sector are bright also for 2023. After a positive 2022, with \$432bn of Defense expenses at global level (+4% YoY and +10.5% on 2019), the expected increase in investments to face the current geopolitical tensions will lead A&D market to grow by 6% YoY in 2023;²
- 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);
- acceleration of the Group's development process, widening and diversifying the offer of finished products and of new methods for testing. We note that according to Trendforce,³ ChatGPT and other AI-based apps are expected to boost the chips market, generating a request of more than 30,000 GPU only considering Nvidia production – one of US chip makers' giants. According to Eles' CEO, RETE zero-defect methodology is expected to represent the best response for chips' qualification and accurate testing, ensuring the chip safety and quality required by the market.

We thus anticipate FY23E total revenues at €33.6mn, growing at a CAGR22–25E of 20.5%, reaching €47.1mn in FY25E.

Despite a better-than-expected profitability in FY22, we cautiously confirmed our estimates at the EBITDA level, expecting the chip shortage that is affecting the market to partially persist in 2023. Indeed, according to JP Morgan, in the short-term period the shortage could still affect some chips categories, especially the ones more requested in the production process. We thus confirm a FY23E EBITDA at €4.8mn, reaching €8.7mn in FY24, growing at CAGR22–25E of 35.4% and with a FY23E EBITDA margin at 14.3%, reaching 18.5% in FY25E.

At the bottom line, in FY23E we forecast net income at €1.4mn, reaching €3.9mn in FY25E (+81.4% CAGR22–25E).

Finally, we foresee a FY23E cash positive net financial position at €0.4mn, considering i) the cash-in of €6.5mn from the capital increase approved and subscribed in February 2023 and ii) a higher NWC absorption, to reflect higher DSO on trade receivables related to A&D sector, alongside higher inventories to cope with raw materials shortage. We note that, while waiting for management's disclosure about a new investment plan, we did not consider any impact on the income statement and balance sheet side deriving from the capital increase, except for the related cash-in. After a 2023 still partially impacted by chip shortage crisis, we expect the following recovery to result in a better NWC management (NWC/Sales ratio from 39% in FY23E to 32% in FY25E), enabling the Group – alongside an improved profitability – to reach a net cash position of €6.5mn in FY25E.

² Source: <https://www.websim.it/notizie/small-mid-cap/eles-11.html>

³ Source: <https://websim.engitel.com/notizie/small-mid-cap/settore-spinto-dall-ai.html>

Change in Estimates

€ mn	2021	2022E	2022	Delta	2023E	2023E	Change	2024E	2024E	Change	2025E	2025E	Change	CAGR	CAGR
	Actual	Old	Actual	A vs E	Old	New		Old	New		Old	New		2022-25 Old	2022-25 New
Total Revenues	19.7	23.3	26.9	15.4%	33.6	33.6	0.0%	39.4	39.4	0.0%	47.1	47.1	0.0%	20.5%	20.5%
YoY Change (%)	3.4%	18.3%	36.5%		24.7%	24.7%		17.4%	17.4%		19.5%	19.5%			
EBITDA	3.2	2.6	3.5	37.1%	4.8	4.8	0.0%	6.6	6.6	0.0%	8.7	8.7	0.0%	35.3%	35.4%
YoY Change (%)	-10.4%	-18.8%	11.2%		36.1%	36.1%		37.8%	37.8%		32.2%	32.2%			
EBITDA Margin	16.0%	11.0%	13.1%	2.1%	14.3%	14.3%	0.0%	16.7%	16.7%	0.0%	18.5%	18.5%	0.0%		
EBIT	1.1	0.5	1.2	143.4%	2.2	2.4	9.0%	3.6	3.8	5.0%	6.3	5.5	-12.8%	73.5%	65.8%
YoY Change (%)	-31.2%	-53.9%	12.1%		86.3%	102.9%		61.7%	55.8%		73.6%	44.1%			
Net Income	0.9	0.3	0.7	129.2%	1.5	1.4	-7.5%	2.6	2.6	-1.0%	4.7	3.9	-16.5%	92.6%	81.4%
YoY Change (%)	-49.2%	-66.7%	-23.6%		133.8%	116.3%		72.2%	84.2%		77.5%	49.8%			
NFP	(3.2)	4.4	7.9	3.5	0.0	(0.4)	(0.5)	(3.2)	(3.5)	(0.2)	(7.8)	(6.5)	1.3		

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 17.6mn of shares, as we included also the 3.8mn of new shares issued in February 2023 after the capital increase.

Our fair value is the result of:

- **EV/EBITDA and P/E multiples:** with a 15% liquidity discount, which returns a value of €3.52ps;
- **DCF analysis** based on WACC of 12.4% and 2% perpetual growth, which returns a value of €3.36ps.

The average of the two methods yields a fair value of €3.44ps.

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

Valuation Recap

	Equity Value €mn	Value per share €
EV/EBITDA	78.88 €	4.48 €
P/E	45.25 €	2.57 €
Average Multiple	62.07 €	3.52 €
DCF	59.12 €	3.36 €
Average	60.59 €	3.44 €

Source: FactSet, KT&Partners' elaboration

Market Multiples Valuation

Following our comps analysis, we evaluate the company by using the 2023–25 EV/EBITDA and P/E market multiples of the peer sample. Our valuation also includes a 15% liquidity/size discount and considers our estimates of ELES' EBITDA and Net income for 2023, 2024, and 2025.

We note that we considered NFP FY22 adjusted for the €6.5mn of cash-in following the capital increase occurred in February, 2023.

Peer Comparison – Market Multiples 2022–25

Company Name	Exchange	Market Cap	EV/SALES 2022	EV/SALES 2023	EV/SALES 2024	EV/SALES 2025	EV/EBITDA 2022	EV/EBITDA 2023	EV/EBITDA 2024	EV/EBITDA 2025	EV/EBIT 2022	EV/EBIT 2023	EV/EBIT 2024	EV/EBIT 2025	P/E 2022	P/E 2023	P/E 2024	P/E 2025
Advantest Corp.	Tokyo	18,340	4.4x	5.3x	4.7x	4.3x	13.0x	17.6x	14.2x	12.5x	14.7x	21.2x	16.2x	13.9x	19.0x	27.9x	21.2x	18.2x
Aehr Test Systems	NASDAQ	844	13.5x	8.5x	5.2x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	32.0x	n.a.	n.a.	n.m	31.6x	19.7x	n.a.
Chroma Ate Inc.	Taiwan	2,581	3.5x	3.6x	3.3x	3.2x	13.6x	13.4x	12.2x	12.1x	15.5x	14.9x	13.5x	13.2x	15.4x	17.5x	16.0x	15.9x
Teradyne, Inc.	NASDAQ	14,042	4.5x	5.5x	4.4x	3.9x	14.8x	22.4x	14.8x	11.9x	16.7x	27.2x	16.6x	13.0x	22.6x	35.2x	21.2x	16.5x
Technoprobe SpA	Milan	847	6.7x	8.4x	6.5x	5.7x	15.5x	22.2x	15.0x	13.0x	18.4x	28.7x	18.0x	15.2x	27.6x	41.4x	26.3x	22.5x
Fae Technology S.P.A	Milan	29	0.8x	0.6x	0.6x	0.5x	8.3x	5.4x	4.7x	3.9x	10.4x	6.5x	5.6x	4.7x	13.8x	8.2x	7.1x	5.9x
Average peer group		6,114	5.6x	5.3x	4.1x	3.5x	13.0x	16.2x	12.2x	10.7x	15.1x	21.8x	14.0x	12.0x	19.7x	27.0x	18.6x	15.8x
Median peer group		1,714	4.4x	5.4x	4.5x	3.9x	13.6x	17.6x	14.2x	12.1x	15.5x	24.2x	16.2x	13.2x	19.0x	29.7x	20.4x	16.5x
ELES S.p.A.	Milan	27	1.0x	0.8x	0.7x	0.6x	7.6x	5.6x	4.0x	3.1x	22.2x	11.0x	7.0x	4.9x	32.0x	18.9x	10.3x	6.8x

Source: FactSet, KT&Partners' Elaboration

EV/EBITDA Multiple Valuation

Multiple Valuation (€mn)	2023E	2024E	2025E
EV/EBITDA Comps	17.6x	14.2x	12.1x
ELES S.p.A. EBITDA	4.8	6.6	8.7
Enterprise value	84.4	93.7	105.3
Average Enterprise Value	94.4		
<i>Liquidity/Size Discount</i>	15%		
Enterprise Value Post-Discout	80.3		
Eles S.p.A. FY22 NFP Adj	1.4		
Minorities FY22	0.0		
Equity Value	78.9		
<i>Number of shares (mn)</i>	17.6		
Value per share	4.5		

Source: FactSet, KT&Partners' elaboration

P/E Multiple Valuation

Multiple Valuation (€mn)	2023E	2024E	2025E
P/E Comps	29.7x	20.4x	16.5x
ELES S.p.A. Net Income	1.4	2.6	3.9
Equity Value	42.0	53.2	64.5
Average Equity Value	53.2		
<i>Liquidity/Size Discount</i>	15%		
Equity Value Post-Discout	45.2		
<i>Number of shares (mn)</i>	17.6		
Value per Share €	2.6		

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, 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 4.2% (Italian 10y BTP, from 3.6% in our previous research), 5.01% equity risk premium (Damodaran for a mature market) and a premium for size at 3.4%. We therefore obtained 12.4% WACC. We note that we considered NFP FY22 adjusted for the €6.5mn of cash-in following the capital increase occurred in February, 2023.

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	2023E	2024E	2025E	2026E
EBIT	2.4	3.8	5.5	6.4
Taxes	(0.6)	(0.9)	(1.3)	(1.5)
D&A	2.0	2.4	2.9	3.3
Change in Net Working Capital	0.4	(0.1)	(1.9)	0.9
Change in Funds	0.8	0.9	1.0	1.0
Net Operating Cash Flow	5.1	6.2	6.2	10.1
Capex	(2.9)	(2.9)	(2.9)	(2.9)
FCFO	2.3	3.3	3.4	7.3
g	2.0%			
Wacc	12.4%			
FCFO (discounted)	1.9	2.5	2.2	7.3
Discounted Cumulated FCFO	13.8			
TV	71.1			
TV (discounted)	46.7			
Enterprise Value	60.5			
FY22 NFP Adjusted	1.4			
Minorities FY22	-			
Equity Value	59.1			
Current number of shares (mn)	17.6			
Value per share (€)	3.36			

Source: Company data, KT&Partners' elaboration

DCF Sensitivity Analysis

€ million		WACC				
Terminal growth rate		12.9%	12.7%	12.4%	12.2%	11.9%
	1.5%	54.1	55.4	56.8	58.2	59.7
	1.8%	55.1	56.5	57.9	59.4	61.0
	2.0%	56.2	57.6	59.1	60.7	62.3
	2.3%	57.3	58.8	60.4	62.0	63.8
	2.5%	58.5	60.1	61.7	63.4	65.2

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 six companies:

- **Advantest Corp.:** listed on the Tokyo stock exchange with a market capitalization of €18.3bn, 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 FY22, the company reached revenues of €4bn. 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 customer solution, support, and equipment-leasing services;
- **Aehr Test Systems:** listed on NASDAQ with a market capitalization of €884mn, 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 FY21, the company reached revenues of €45mn;
- **Chroma ATE Inc.:** listed on the Taiwan stock exchange with a market capitalization of €2.6bn, 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 FY22, the company reached revenues of €0.7bn;
- **Teradyne Inc.:** listed on NASDAQ with a market capitalization of €14bn, Teradyne Inc. supplies automation equipment for test and industrial applications. In FY22, the company reached revenues of €3bn. 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.

- **Technoprobe SpA:** listed on Milan Stock Exchange with a market capitalization of €847mn, Technoprobe SpA engages in the development, design, and manufacture of probe cards used for testing non-memory or system-on-chip semiconductors. In FY22, the company reached revenues of €0.5bn.
- **FAE Technology SpA:** listed on the Milan Stock Exchange with a market capitalization of €29mn, FAE Technology SpA provides PoC development, industrial design, prototyping and manufactures embedded, and custom electronics products. It is able to develop a solution to validate its effectiveness transformation into an industrial product. The company reached €39mn of revenues in FY22.

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- HOLD – FOR A FAIR VALUE <15% AND >-15% ON CURRENT PRICE
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