

Strategic Collaborations Fueling Growth

ADD | Fair Value: €3.47 (€3.44) | Current Price: €2.19 | Upside: +58.4%

€ Million	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E	FY27E
Total Revenues	19.7	26.9	33.7	39.4	45.7	46.8	49.7
EBITDA	3.2	3.5	5.1	6.0	7.4	8.1	9.0
margin	16.0%	13.1%	15.0%	15.1%	16.2%	17.3%	18.0%
Net Profit	0.9	0.7	0.8	1.4	2.3	2.7	3.1
margin	4.3%	2.4%	2.4%	3.5%	5.1%	5.8%	6.3%
EPS	0.06	0.05	0.05	0.08	0.13	0.15	0.18
NFP/(Cash)	(3.2)	7.9	3.7	1.0	0.0	(5.1)	(10.4)

Source: Company data, KT&Partners' elaboration

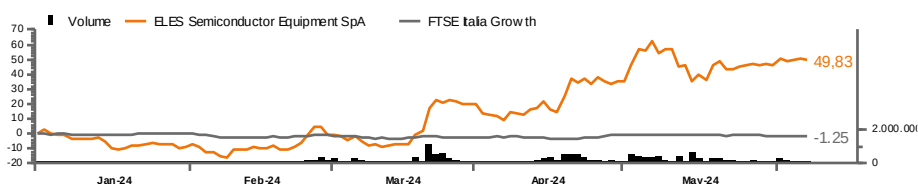
FY23 Financial Results. ELES closes FY23 reporting sound financial results defined by a strong +25.7% YoY Sales Revenues growth at €32.8mn (vs.€26.1mn in FY22) and consistent with our latest estimates of €33.2mn. The company benefitted, from one side, from the first full-year contribution from the two newly acquired companies and, from the material growth (+40% YoY) of the Industrial end-market. Among business lines: i) Semiconductor still accounts for the bulk of sales with revenues at €22mn growing by +6.2% from €20.8mn in FY22 and outperforming the reference market of ICs Automated Test Equipment which witnessed a -16% YoY contraction; and ii) A&D line more than doubling its sales to €10.7mn from €5.3mn in FY22 (+101% YoY), impacted by the contribution from newly acquired CBL and benefitting from the National and European recovery of defense investments. Following the different revenue mix with the shift towards Service activities that characterized FY23, Gross Profit came in at €21.9mn in line with our forecasted €21.4mn and along an enhanced Gross Margin of 65%. On profitability, EBITDA increased to €5.1mn (vs. €3.5mn in FY22) with an EBITDA Margin at 15% - increasing by 2pp from FY22 and overcoming our estimated 14.3%. On Balance Sheet side, NFP decreased by c.€4.2mn to €3.7mn mainly as a result of i) the capital increase that took place in February 2023 and the warrant exercise; and despite ii) the higher TWC absorption coming from the Inventory increase and Payables decrease.

1Q24 Financial Results. The Group continued its growth into 2024, achieving consolidated 1Q24 sales revenues of €6.5mn (+2.7% YoY). This growth was significantly driven by the contributions from companies acquired in 2022, CBL Electronics S.r.l. and Campera S.r.l. The A&D sector saw a 38% increase, and the Industrial and Communication sector experienced a remarkable 360% rise, which together offset a 38% decline in the automotive market.

Change in estimates. Following the FY23 ELES results and updated industry estimates, we have slightly revised our projections and added forecasts for FY26E and FY27E. We almost left unchanged Revenue expectations for FY24E now at €39.4, representing a +17.1% YoY growth from FY23 revenues – foreseeing a CAGR2023-2027E of 10.5%, reaching €49.7mn by the end of FY27. We have cautiously revised our FY24E EBITDA estimate to €6.0mn, reflecting the uncertain macroeconomic scenario, and we anticipate a slight improvement in profitability, with margin reaching 18% by FY27E. On Balance sheet side we foresee a FY24E NFP at €1.0mn thanks to optimized TWC management, to finally reach by FY27E a net cash position of €10.4mn.

Valuation. Our valuation – based on both DCF and multiples methods – returns an equity value of €61.1mn or a fair value of €3.47ps, implying a +58.4% on the current market price.

YTD Relative Performance Chart



Via della Posta, 10 – Piazza Attari, 20123 Milan – Italy
 Tel: +39.02.83424007 Fax: +39.02.83424011
 segreteria@ktepartners.com

Research Update

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Equity Research Team

connect@ktepartners.com

Maria Teresa DI GRADO

mdigrado@ktepartners.com

+39 331 631 0793

Market Data

Main Shareholders			
Zaffarami Antonio			24.0%
Franceschin Carla			6.2%
Zaffarami Francesca			3.9%
NextStage AM			10.0%
Mkt Cap (€ mn)			39.3
EV (€ mn)			42.3
Shares issued (mn)			17.6
Free Float (%)			56.0%
Market multiples	2023	2024	2025
EV/EBITDA			
ELES	8.4x	7.1x	5.7x
Comps median	26.0x	28.1x	18.1x
ELES vs Median	-68%	-75%	-69%
P/E			
ELES	48.1x	27.8x	16.6x
Comps median	27.1x	24.6x	29.1x
ELES vs Median	77%	13%	-43%

Stock Data

52 Wk High (€)	2.47
52 Wk Low (€)	1.14
Avg. Daily Trading 90d	230,797
Price Change 1w (%)	-6.8%
Price Change 1m (%)	46.5%

Key Figures – ELES S.p.A.

Current price (€)	Fair Value (€)		Sector				Free Float (%)
2.19	3.47		Semiconductor Testing				56.0%
Per Share Data	2021A	2022A	2023A	2024E	2025E	2026E	2027E
Total shares outstanding (mn)	13.6	13.8	17.6	17.6	17.6	17.6	17.6
EPS	0.06	0.05	0.05	0.08	0.13	0.15	0.18
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	19.7	26.9	33.7	39.4	45.7	46.8	49.7
EBITDA	3.2	3.5	5.1	6.0	7.4	8.1	9.0
EBIT	1.1	1.2	2.2	2.8	4.4	5.0	5.7
EBT	1.1	1.0	1.3	2.3	3.8	4.4	5.1
Taxes	(0.3)	(0.4)	(0.5)	(0.9)	(1.5)	(1.7)	(2.0)
Tax rate	23%	35%	39%	39%	39%	39%	39%
Net Income	0.9	0.7	0.8	1.4	2.3	2.7	3.1
Net Income attributable to the Group	0.9	0.7	0.8	1.4	2.3	2.7	3.1
Balance Sheet (EUR million)							
Total fixed assets	9.2	16.7	18.3	18.4	18.5	18.6	18.4
Net Working Capital (NWC)	8.0	13.5	14.0	13.4	15.3	13.7	12.4
Provisions	(0.9)	(1.7)	(1.7)	(2.4)	(3.2)	(4.0)	(4.7)
Total Net capital employed	16.3	28.5	30.6	29.3	30.7	28.3	26.1
Net financial position/(Cash)	(3.2)	7.9	3.7	1.0	0.0	(5.1)	(10.4)
Group Shareholder's Equity	19.5	20.6	26.9	28.3	30.6	33.3	36.5
Minorities	-	-	-	-	-	-	-
Total Shareholder's Equity	19.5	20.6	26.9	28.3	30.6	33.3	36.5
Cash Flow (EUR million)							
Net operating cash flow	2.9	3.1	4.2	4.9	5.7	6.2	6.7
Change in NWC	(1.7)	(5.5)	(0.5)	0.6	(2.0)	1.6	1.3
Capital expenditure	(2.4)	(9.5)	(4.2)	(2.9)	(2.9)	(2.9)	(2.9)
Other cash items/Uses of funds	-	0.4	0.4	0.4	0.4	0.4	0.5
Free cash flow	(1.6)	(11.4)	(0.8)	3.0	1.3	5.4	5.7
Enterprise Value (EUR million)							
Market Cap	47.9	29.5	39.3	38.6	38.6	38.6	38.6
Minorities	-	-	-	-	-	-	-
Net financial position/(Cash)	(3.2)	7.9	3.7	1.0	0.0	(5.1)	(10.4)
Enterprise value	44.7	37.3	43.0	42.3	42.3	42.3	42.3
Ratios							
EBITDA margin	16.0%	13.1%	15.0%	15.1%	16.2%	17.3%	18.0%
EBIT margin	5.4%	4.5%	6.4%	7.2%	9.5%	10.6%	11.4%
Gearing - Debt/equity	-16.3%	38.3%	13.7%	3.5%	0.0%	-15.2%	-28.5%
Interest cover on EBIT	-4.3%	16.4%	38.6%	19.1%	12.4%	10.9%	9.5%
NFP/EBITDA	-1.0x	2.2x	0.7x	0.2x	0.0x	-0.6x	-1.2x
ROCE	6.6%	4.2%	7.0%	9.6%	14.2%	17.5%	21.8%
ROE	4.4%	3.2%	3.0%	4.9%	7.6%	8.1%	8.6%
EV/Sales	2.1x	1.6x	1.3x	1.1x	0.9x	0.9x	0.9x
EV/EBITDA	13.4x	12.0x	8.4x	7.1x	5.7x	5.2x	4.7x
P/E	34.9x	46.3x	48.1x	27.8x	16.6x	14.3x	12.4x
Free cash flow yield	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Growth Rates (%)							
Sales	3.4%	36.5%	25.0%	17.1%	16.0%	2.4%	6.2%
EBITDA	-10.4%	11.2%	43.7%	18.1%	24.4%	9.3%	10.5%
EBIT	-31.2%	12.1%	79.0%	31.4%	54.2%	13.9%	14.4%
Net Income	-49.2%	-23.6%	23.0%	73.1%	67.0%	15.9%	16.1%

Source: Company data, KT&Partners' elaboration

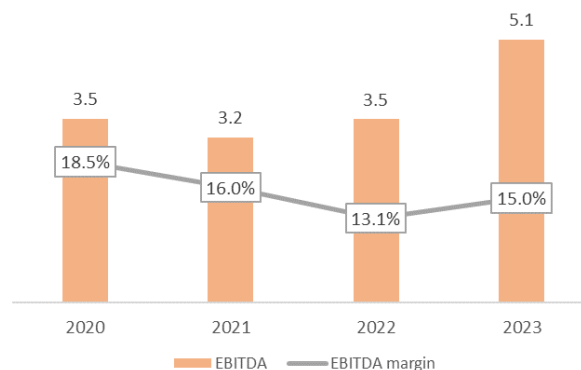
Note: FY20 net income benefitting from a €0.5mn tax advantage related to a property revaluation in accordance with Law Decree 104/202.

Key Charts

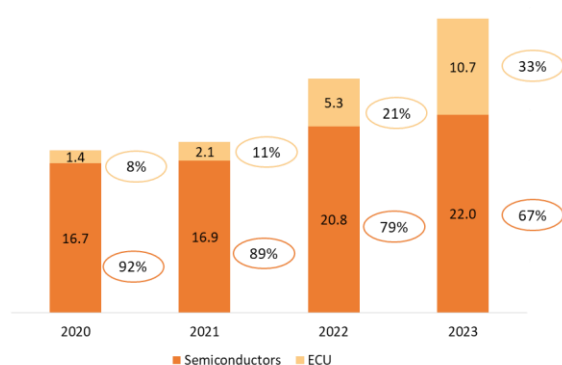
Sales Revenues (€mn)



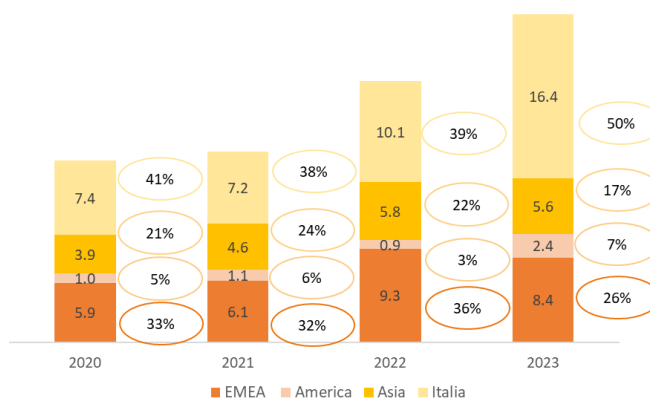
EBITDA and EBITDA Margin (€mn, %)



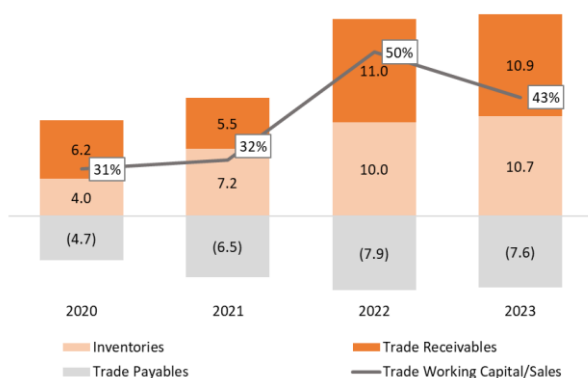
Sales Revenues by Product Line (€mn, %)*



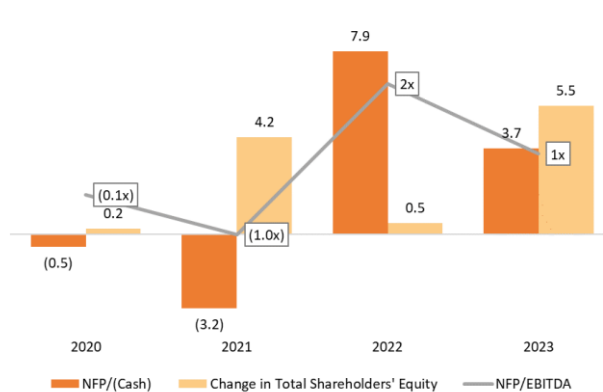
Sales Revenues by Geographic Area (€mn, %)



Trade Working Capital (€mn, %)



NFP, Change in Shareholders Equity and NFP/EBITDA (€mn)



*Note: 2020 and 2021 A&D includes revenues from ECU, later reclassified among Semiconductors.

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

- **Application for a new patent.** In March 2024, ELES filed a patent application for Wafer-level Testing solution for devices in SiC&Gan technology, for which strong growth is expected in the coming years, demonstrating its commitment to establish a strong intellectual property position.
- **ELES and ProteanTecs partner to enhance reliability testing with deep data analytics.** In October 2023 ProteanTecs, a leader in deep data analytics, and ELES have partnered for safety and mission-critical applications. Their collaboration integrates ProteanTecs' monitoring solutions with ELES' reliability testing, detailed in their white paper “Using Deep Data Analytics to Enhance Reliability Testing: The Fast Roadmap for Zero Defects.” This partnership aims to improve reliability testing by incorporating parametric measurements, enhancing stress tests, and offering dynamic calibration and early failure detection. This innovative approach aims to increase device reliability, improve production yields, and reduce time to market.

- **Extending the warrant exercise deadline to support further growth.** In October, 2023, ELES' shareholders meeting of warrant holder approved to modify the "Warrant ELES 2019-2024" regulation, with the aim to extend the final term of warrant exercise, currently fixed in June, 2024. The Company added two exercise period in June 2025 and June 2026, respectively, keeping the price unchanged with respect to the previous last window at €2.20ps. The change in regulation is expected to provide an enhanced investment opportunity for warrant holders, being warrant currently out of the money.
- **A new high-profile partnership in the Silicon Valley.** In 1H23 Integrated Circuits Engineering (ICE) Lab chose the liquid-cooled Eles ART HPH semiconductor qualification platform to process ultra-high-power for AI, a fast-growing market in which RETE could provide an ever-growing reliable technology. The new agreement enriched the partnership signed in February, 2023 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. The deals are part of Eles' expansion strategy in the US, focused on identifying big players to enable RETE methodology diffusion as a distinctive advantage in semiconductor chip qualification.
- **A reliable supplier for the "Comet Interceptor" mission.** In June 2023, Eles achieved a strategical order from OHB Italia SpA to realize an Electrical Group Support Equipment (ESGE) for a European Space Agency mission. Eles is expected to supply an elaborate hardware and software system that will be used to test and validate the satellite of the "Comet Interceptor" mission before launch. Company's involvement in high-scientific value mission confirms Eles' test reliability, while consolidating Group's positioning in the strategic A&D segment.
- **Eles rises to 100% of CBL Electronics: closing of the remaining 4% acquisition.** On July 14th, 2023 Eles announced the closing of the acquisition of the remaining 4% stake in CBL Electronics for a total consideration of €60k, leading Eles to become the sole shareholder of CBL. We note that the acquisition was approved during Eles' BoD occurred in May 2023.
- **Co-funding four PhD grants on new technologies for high-reliability electronics.** In July 2023 Eles announced to have co-funded four PhD grants, in cooperation with the Department of Engineering and the University of Perugia. The three-years program includes a training period both at Todi headquarter and at the Fraunhofer Institute for ENAS, with which Eles signed a strategic partnership. The PhD program is expected to train the specific professional skills required by microchip manufacturer, while enabling to PhD students to face the challenge of innovation.
- **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.
- **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.
- **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.

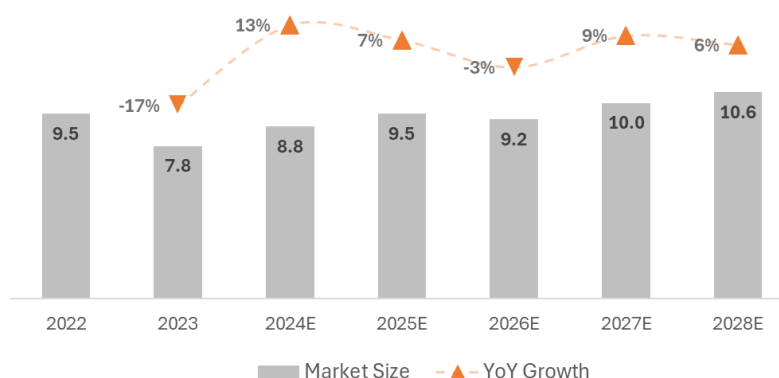
- **In Italy, the National chip hub takes shape.** In December 2022, the Italian Parliament approved the "Italian center for IC semiconductor design," with the aim to develop and produce integrated circuits – becoming as independent as possible from foreign producers – also thanks to a wide hub of universities, 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.
- **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.

Market Update

Test Equipment Market

Sales of test-related equipment began to recover in the second half of 2023 after three consecutive quarters of decline. This rebound, which continued into the first quarter of 2024, has been primarily driven by demand in the automotive and industrial sectors, as well as for test appliances with thermal management capabilities for high-performance computing (HPC). The outlook for 2024 remains positive, with strong growth expected in test equipment for industrial and automotive markets. However, there is a persistent weakness in the consumer electronics sector. Overall, the long-term forecast for the test equipment market indicates a healthy growth trajectory, expected to reach €10.6bn by 2028, with a CAGR2023-2028 of 6.2%.

Test Equipment Market 2023-2028E (€bn)



Source: YOLE Intelligence, KT&Partners' elaboration

During downturns, the demand for test equipment typically decreases for two consecutive quarters before starting to recover. This pattern was particularly evident in the first two quarters of 2023 when chipmakers and OSATs reduced their expenditure on testing equipment to limit cash outflows. With the recovery of end markets, the increase in chip prices, and the reduction of chip inventories, the demand for test equipment returned to normal seasonal patterns. Indications from chipmakers and OSAT buyers suggest that the improvements seen in the second half of 2023 will continue throughout the rest of the current year, albeit at a relatively low level. On a different note, service and support revenues demonstrated their countercyclical nature by remaining stable during the downturn.

Aerospace & Defense Industry

The outlook for the global Aerospace & Defense (A&D) industry, which grew from \$795.92bn in 2022 to \$855.62bn in 2023 (+7.5% YoY), remains positive for 2024. Growth estimates predict that the industry will surpass \$1 trillion by 2027, with a CAGR of 5.9%.

Regarding the aerospace sector, the latest study by Euroconsult anticipates significant growth in the space economy market, primarily driven by the boom in commercial satellite constellations. In fact, the number of satellites launched from 2022 to 2031 is expected to increase by approximately four times compared to the period from 2012 to 2021.

The outlook for the defense industry is also very positive. In 2023, the Russo-Ukrainian conflict was joined by a new warfront in the Middle East, initiated by the Gaza War between Israel and Hamas on October 7, 2023, in response to a Hamas attack on Israel. Growing geopolitical

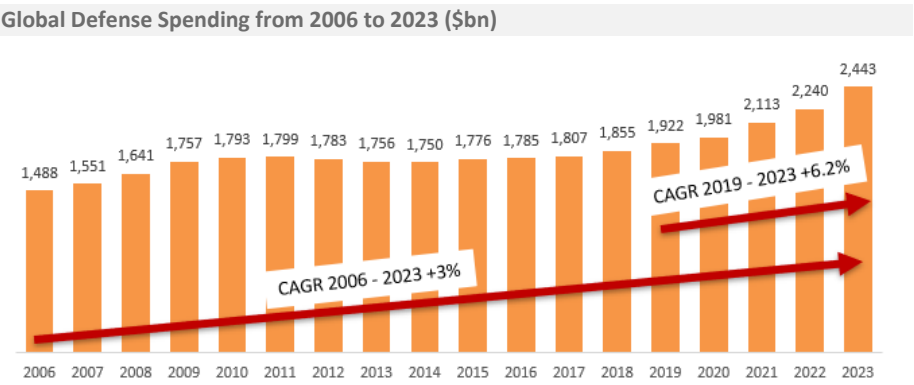
tensions have led NATO countries to reconsider their defense investments, which are now expected to consistently converge towards the target of 2% of GDP.

As these trends are anticipated to boost both domestic and international spending, the growing demand may introduce new challenges for A&D companies, who are already contending with ongoing issues like supply chain disruptions, extended lead times, and a shortage of skilled workers.

To overcome these hurdles, A&D companies might increase their adoption of digitalization and cutting-edge technologies. This approach could help them address cost-related challenges and create new revenue opportunities, thereby enhancing profitability. Advanced technologies may play a key role in establishing a more resilient supply chain, resolving logistical problems, attracting new talent, and swiftly developing innovative products also to face with the evolving customer preferences and growing emphasis on sustainability product with low CO2 emissions.

Defense Spending

According to SIPRI, the Global Defense Spending grew at a double pace in the recent years, reporting a CAGR2019-2023 of +6.2% vs a CAGR2006-2023 of 3% and it is expected to anticipate higher spending from both the defense and commercial sectors in the coming year. Defense expenditures are forecast to rise in response to growing geopolitical tensions and the need for advanced capabilities. On the commercial side, spending is likely to increase due to the heightened demand for passenger flights and progress in emerging markets.



Source: SIPRI, KT&Partners' elaboration

In 2024, increased military spending is expected to drive innovation and digital infrastructure by leveraging technologies for defense applications. The US DOD (Department of Defense) has proposed approximately \$1.8bn for AI applications (a 63.6% increase from FY23), \$9.3bn for advanced technologies, and \$0.69bn for the experimentation and evaluation of advanced technologies for joint warfare.

The bulk of technology funding is anticipated to focus on boosting capabilities and improving readiness. The US is investing heavily in procuring and modernizing next-generation air, ground, and naval vehicles to meet defense needs. Additionally, the US DOD is committed to enhancing the resilience of the defense supply chain to ensure industrial base stability and future demand readiness. AI is also a key focus, seen as crucial for maintaining the US's strategic edge in future conflicts.

Investments are being made in various technology initiatives, including microelectronics, advanced propulsion, quantum technologies, and advanced computing. The DOD is engaging the private sector, particularly small businesses and startups, and academia through

mechanisms like the Defense Innovation Unit (DIU), Accelerating the Procurement and Fielding of Innovative Technologies (APFIT) program, National Security Innovation Network (NSIN), and AFWERX to promote innovation and fast-track the adoption of emerging technologies.

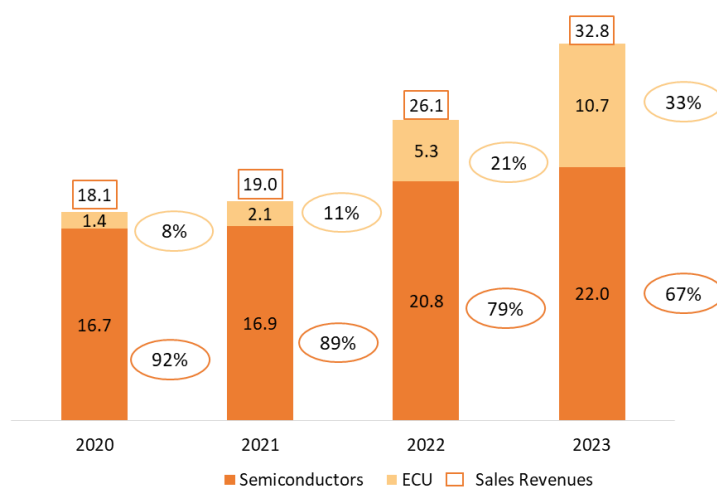
Although US defense spending as a percentage of GDP has decreased over the years to 3.1% and is projected to drop to 2.8% by 2033, potentially limiting flexibility for new missions due to inflation, A&D companies in 2024 can still benefit from the DOD's focus on R&D of advanced defense equipment and technologies.

FY23 Financial Results

ELES closes FY23 reporting sound financial results defined by a strong +25.7% YoY Sales Revenues growth at €32.8mn (vs.26.1mn in FY22) and consistent with our latest estimates of €33.2mn. The company benefitted, from one side, from the first full-year contribution from the acquired companies Campera ES Srl (dated to January 2022) and CBL Electronics (November 2022), and, from the material growth (+40% YoY) of the Industrial end-market driven by the robust demand for devices that requires high-performance processors such as ones in AI and Data Management sectors. Delving deeper into business lines:

- Semiconductor, with Automotive remaining the main end-market, still accounts for the bulk of sales with revenues at €22mn growing by +6.2% from €20.7mn in FY22 and outperforming the reference market of ICs Automated Test Equipment which witnessed a -16% YoY contraction. The performance is made up by a positive revenue mix that saw the Test Applications Sales, with the flagship *RETE* Methodology, rose by +20% YoY to €13.4mn and able to counterbalance the -10% YoY slowdown in the more cyclical Test Systems product line.
- The A&D line more than doubled its sales to €10.7mn from €5.4mn in FY22 (+101% YoY), counting for the 33% of ELES sales revenues, being the one impacted by the contribution from newly acquired CBL Electronics and benefitting from the National and European recovery of defense investments.

ELES Revenues Breakdown (€mn)



Source: KT&Partners' elaboration on Company Data;

Note: 2020 and 2021 A&D includes revenues from ECU, later reclassified among Semiconductors.

Export still holds a significant share of 50% of sales but shows a reduction from the 61% quota in FY22 due to the consolidation of CBL Electronics which reinforced the presence in the domestic market. Among the regions America is the one reporting a stronger growth with sales rising to €2.4mn from €0.9 in FY22, expressing the first outcomes of the strategic partnership ELES signed back in February 2023 with an OSAT (Outsourced Semiconductor Assembly and Test) based in Silicon Valley.

Following the different revenue mix with the shift towards Service activities that characterized FY23, Gross Profit came in at €21.9mn in line with our forecasted €21.4mn and along an enhanced Gross Margin of 65% (vs. 56% in FY22). On profitability, EBITDA increased to €5.1mn (vs. €3.5mn in FY22) with an EBITDA Margin at 15% - increasing by 2pp from FY22 and overcoming our estimated 14.3% - following: i) the decreased incidence of services costs (in particular logistic ones) that in the previous years were affected by shortage dynamics;

and ii) despite the increase in personnel expenses (26% on sales from 19% in FY22) mainly linked to CBL consolidation.

Finally, Net Income stood at €0.8mn, growing by +23% from €0.7mn in FY22, and slightly below our forecasted €1.2mn that considered a lower level of D&As.

On Balance Sheet side, NFP decreased by c.€4.2mn to €3.7mn mainly as a result of i) the capital increase that took place in February 2023 and the warrant exercise that occurred in the VIII and IX exercise periods (respectively in June and November 2023), and despite ii) the higher TWC absorption coming from the Inventory increase and Payables decrease.

ELES Income Statement vs KT&Partners Estimates (€mn)							
€ million	FY20	FY21	FY22	FY23	YoY %	FY23E	A vs E %
Sales	18.1	19.0	26.1	32.8	25.7%	33.2	-1.4%
Other Revenues	1.0	0.7	0.8	0.9	3.9%	0.3	162.7%
Total Revenues	19.1	19.7	26.9	33.7	25.0%	33.6	0.3%
Products and Raw materials	(7.6)	(7.9)	(11.9)	(11.8)	-0.8%	(12.1)	-3.0%
Gross Profit	11.5	11.8	15.1	21.9	45.3%	21.4	2.1%
<i>Gross Margin</i>	<i>60.2%</i>	<i>59.9%</i>	<i>56.0%</i>	<i>65.0%</i>	<i>9.1%</i>	<i>63.9%</i>	<i>1.2%</i>
Cost of Services	(3.7)	(4.1)	(5.8)	(6.9)	18.8%	(7.5)	-7.7%
Personnel Expenses	(4.0)	(4.3)	(5.2)	(8.7)	66.9%	(8.5)	2.7%
Other Operating Expenses	(0.2)	(0.3)	(0.5)	(1.2)	135.3%	(0.7)	80.5%
EBITDA	3.5	3.2	3.5	5.1	43.7%	4.8	5.5%
<i>EBITDA margin</i>	<i>18.5%</i>	<i>16.0%</i>	<i>13.1%</i>	<i>15.0%</i>	<i>2.0%</i>	<i>14.3%</i>	<i>0.7%</i>
D&A and Provisions	(2.0)	(2.1)	(2.3)	(2.9)	25.3%	(2.4)	21.4%
EBIT	1.6	1.1	1.2	2.2	79.0%	2.4	-10.3%
<i>EBIT margin</i>	<i>8.2%</i>	<i>5.4%</i>	<i>4.5%</i>	<i>6.4%</i>	<i>1.9%</i>	<i>7.1%</i>	<i>-0.8%</i>
Financial Income and Expenses	(0.1)	0.0	(0.2)	(0.8)		(0.8)	
Extraordinary items	0.0	0.0	0.0	0.0		0.0	
EBT	1.5	1.1	1.0	1.3	31.5%	1.6	-19.0%
Taxes	0.2	(0.3)	(0.4)	(0.5)	34.0%	(0.4)	-8.2%
<i>Tax Rate</i>	<i>-16.1%</i>	<i>23.5%</i>	<i>35.0%</i>	<i>39.2%</i>		<i>23.5%</i>	
Net Income	1.7	0.9	0.7	0.8	23.0%	1.2	-35.7%
<i>Net margin</i>	<i>8.8%</i>	<i>4.3%</i>	<i>2.4%</i>	<i>2.4%</i>	<i>0.0%</i>	<i>3.7%</i>	<i>-1.3%</i>

Source: KT&Partners' elaboration on Company Data

1Q24 Financial Results

The growth trajectory of the Group continues into 2024, with consolidated sales revenues for the 1Q24 amounting to €6.5mn, marking a 2.7% increase compared to €6.3mn in the first quarter of 2023. This growth was bolstered by the positive contributions from the companies acquired in 2022 (CBL Electronics S.r.l. and Campera S.r.l.). Moreover, the increase was driven by the Aerospace & Defense end market, which grew by 38% compared to the first quarter of 2023, and the Industrial and Communication market, which surged by 360% compared to the same period in 2023. These gains collectively offset the contraction in the automotive end market, which saw a 38% decline compared to the first quarter of 2023.

Change in Estimates

Following the FY23 ELES results and updated industry estimates, we have slightly revised our projections for the 2024E-2025E period and have added forecasts for 2026E and 2027E.

In detail, we have unchanged our Total Revenue expectations for FY24E, now projected at €39.4mn equal to the previous estimate. This represents an 17.1% YoY growth from the €33.7mn reported in FY23A. Over the next few years, Total Revenues are expected to increase at a CAGR2023-2027E of 10.2%, reaching €49.7mn by the end of the forecast period.

This growth will be primarily driven by:

- i) Strategic partnerships with the Fraunhofer Institute for Electronic Nano Systems and ProtenanTecs;
- ii) Synergies with acquired companies, transforming ELES into a high-tech aggregation hub;
- iii) Cross-selling and up-selling strategies due to a more integrated and comprehensive value chain, enhancing its market share in the ATE market (including both burn-in and SoC segments);
- iv) Increased focus on the chip market driven by the boom in AI-based applications, which is expected to boost demand for chip qualification and precise testing, ensuring the safety and quality of semiconductors;
- v) Rising expenses in Aerospace & Defense Sector accelerated by geopolitical conflicts;
- vi) new clients' acquisition.
- vii) The increasing weight of the A&D end-market along with its counter-cyclical dynamics.

Despite better-than-expected profitability in FY23, we have cautiously revised our FY24E EBITDA estimate to €6.0mn from the previously seen €6.6mn, reflecting the uncertain macroeconomic scenario. Nonetheless, we anticipate an improvement in profitability, albeit slightly less pronounced, with a margin of 15.1% compared to our earlier estimate of 16.7% and reaching 18.0% by FY27E.

At the bottom line, we forecast a net income of €1.4mn for FY24E and expect it to grow to €3.1mn by FY27E, reflecting a 40.4% CAGR from 2023 to 2027.

Finally, we foresee a FY24E net financial position at €1.0mn thanks to better optimization of NWC management, primarily due to more efficient inventory control. As a result, by the end of FY27E, we anticipate a net cash position of €10.4mn.

Change in estimates

€ mn	2023E	2023	Change	2024E	2024E	Change	2025E	2025E	Change	2026E	2027E	CAGR
	Old	Actual		Old	New		Old	New		New	New	2023-27 New
Total Revenues	33.6	33.7	0.3%	39.4	39.4	0.0%	47.1	45.7	-3.0%	46.8	49.7	10.2%
YoY Change (%)	24.7%	25.0%		17.4%	17.1%		19.5%	16.0%		2.4%	6.2%	
EBITDA	4.8	5.1	5.5%	6.6	6.0	-9.6%	8.7	7.4	-14.9%	8.1	9.0	15.4%
YoY Change (%)	36.1%	43.7%		37.8%	18.1%		32.2%	24.4%		9.3%	10.5%	
EBITDA Margin	14.3%	15.0%	0.7%	16.7%	15.1%	-1.6%	18.5%	16.2%	-2.3%	17.3%	18.0%	
EBIT	2.4	2.2	-10.3%	3.7	2.8	-24.0%	5.4	4.4	-19.2%	5.0	5.7	27.5%
YoY Change (%)	99.5%	79.0%		55.1%	31.4%		45.1%	54.2%		13.9%	14.4%	
Net Income	1.2	0.8	-35.7%	2.3	1.4	-38.8%	3.6	2.3	-34.9%	2.7	3.1	40.4%
YoY Change (%)	91.1%	23.0%		81.9%	73.1%		57.1%	67.0%		15.9%	16.1%	
NFP	3.7	3.7	0.0	1.9	1.0	(0.9)	(2.3)	0.0	2.3	(5.1)	(10.4)	

Source: KT&Partners' estimates

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 and is the result of:

- **EV/EBITDA and P/E multiples:** with a 20% liquidity discount, which returns a value of €4.36ps;
- **DCF analysis** based on WACC of 12.2% and 2% perpetual growth, which returns a value of €2.58ps.

The average of the two methods yields a fair value of €3.47ps.

Valuation Recap

	Equity Value €mn	Value per share €
EV/EBITDA	109.70 €	6.23 €
P/E	43.77 €	2.48 €
Average Multiple	76.74 €	4.36 €
DCF	45.53 €	2.58 €
Average	61.13 €	3.47 €

Source: FactSet, KT&Partners’ elaboration

Market Multiples Valuation

Following our comps analysis, we evaluate the company by using the 2024–26 EV/EBITDA and P/E market multiples of the peer sample. Our valuation also includes a 25% liquidity/size discount and considers our estimates of ELES’ EBITDA and Net income for 2024, 2025 and 2026.

Peer Comparison – Market Multiples 2023–26

Company Name	Exchange	Market Cap	EV/SALES 2023	EV/SALES 2024	EV/SALES 2025	EV/SALES 2026	EV/EBITDA 2023	EV/EBITDA 2024	EV/EBITDA 2025	EV/EBITDA 2026	P/E 2023	P/E 2024	P/E 2025	P/E 2026
Advantest Corp.	Tokyo	23,666	7.3x	7.0x	5.8x	5.3x	31.5x	28.1x	18.1x	15.2x	n.m	45.7x	29.1x	23.9x
Aehr Test Systems	NASDAQ	339	5.0x	4.8x	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	27.1x	24.6x	n.a.	n.a.
Chroma Ate Inc.	Taiwan	3,345	5.9x	5.5x	4.7x	4.3x	20.4x	18.8x	15.0x	14.3x	28.3x	24.1x	19.8x	17.9x
Teradyne, Inc.	NASDAQ	20,887	8.2x	8.0x	6.5x	5.5x	34.6x	32.0x	21.7x	17.0x	n.m	46.1x	29.5x	22.4x
Technoprobe SpA	Milan	5,649	12.9x	9.4x	7.8x	6.7x	n.m	30.8x	21.3x	16.5x	n.m	n.m	40.7x	30.5x
Fae Technology S.P.A	Milan	68	1.2x	0.9x	0.8x	0.7x	11.8x	7.6x	6.1x	5.3x	20.1x	10.9x	8.5x	n.a.
Average peer group		8,993	6.8x	5.9x	5.1x	4.5x	24.6x	23.5x	16.4x	13.7x	25.2x	30.3x	25.5x	23.7x
Median peer group		4,497	6.6x	6.2x	5.8x	5.3x	26.0x	28.1x	18.1x	15.2x	27.1x	24.6x	29.1x	23.2x
ELES S.p.A.	Milan	39	1.3x	1.1x	0.9x	0.9x	8.5x	7.2x	5.8x	5.3x	48.7x	28.1x	16.8x	14.5x

Source: FactSet, KT&Partners’ Elaboration

EV/EBITDA Multiple Valuation

Multiple Valuation (€mn)	2024E	2025E	2026E
EV/EBITDA Comps	28.1x	18.1x	15.2x
ELES S.p.A. EBITDA	6.0	7.4	8.1
Enterprise value	167.4	134.5	123.4
Average Enterprise Value		141.8	
Liquidity/Size Discount		20%	
Enterprise Value Post-Discount		113.4	
Eles S.p.A. FY23 NFP		3.7	
Minorities FY22		0.0	
Equity Value		109.7	
Number of shares (mn)		17.6	
Value per share		6.2	

Source: FactSet, KT&Partners’ Elaboration

P/E Multiple Valuation

Multiple Valuation (€mn)	2024E	2025E	2026E
P/E Comps	24.6x	29.1x	23.2x
ELES S.p.A. Net Income	1.4	2.3	2.7
Equity Value	34.2	67.6	62.4
Average Equity Value		54.7	
Liquidity/Size Discount		20%	
Equity Value Post-Discount		43.8	
Number of shares (mn)		17.6	
Value per Share €		2.5	

Source: FactSet, KT&Partners’ Elaboration

DCF Valuation

We have also performed our valuation using a four-year DCF model, based on an 12.7% cost of equity, 5% 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 3.8% (Italian 10y BTP, from 4.2% in our previous research), 5.0% equity risk premium (Damodaran for a mature market) and a premium for size at 3.4%. We therefore obtained 12.2% WACC.

We discounted 2024E–27E 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	2024E	2025E	2026E	2027E
EBIT	2.8	4.4	5.0	5.7
Taxes	(1.1)	(1.7)	(1.9)	(2.2)
D&A	2.8	2.7	2.8	3.0
Change in Net Working Capital	0.6	(2.0)	1.6	1.3
Net Operating Cash Flow	5.9	4.2	8.2	8.5
Capex	(2.9)	(2.9)	(2.9)	(2.9)
FCFO	3.0	1.3	5.4	5.7
g	2.0%			
Wacc	12.2%			
Discounted Cumulated FCFO	11.7			
TV	56.5			
TV (discounted)	37.5			
Enterprise Value	49.2			
FY23 NFP	3.7			
Minorities FY23	-			
Equity Value	45.5			
Current number of shares (mn)	17.6			
Value per share (€)	2.58			

Source: Company data, KT&Partners’ elaboration

DCF Sensitivity Analysis						
€ million	WACC					
Terminal growth rate		12.7%	12.5%	12.2%	12.0%	11.7%
	1.5%	41.4	42.5	43.6	44.8	46.1
	1.8%	42.2	43.3	44.5	45.8	47.1
	2.0%	43.1	44.3	45.5	46.8	48.2
	2.3%	44.0	45.3	46.6	47.9	49.4
	2.5%	45.0	46.3	47.6	49.1	50.6

Source: Company data, KT&Partners’ elaboration

Warrant

Should be noted that the at the moment of this research publication, is ongoing the 10th (out of 12) Warrant exercise period from the 1st of June, 2024 till 28th June, 2024. Warrant holders may subscribe for newly issued Eles ordinary shares, in the ratio of one share every two warrants (still 6.2mn in circulation), at a strike price of €2.20. Being the warrant almost in the money considering the actual ELES price, we conducted an analysis on the possible dilutive effect rising from the warrant’s conversion – with the hypnotized scenario being a full free-float conversion.

Warrant Dilution (Free Float Conversion)		
		Value per share €
Valuation model avg		3.47 €
Post Warrant Dilution	-	0.11 €
Post Warrant Fair Value		3.36 €

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 €24.6bn, 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 FY23, the company reached revenues of €3.1bn. It operates through the:
 - Semiconductor and Components Test Systems segment, which offers test systems for the semiconductor and electronic component industries, 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;
 - Others segment that is involved in customer solution, support, and equipment-leasing services;
- **Aehr Test Systems:** listed on NASDAQ with a market capitalization of €356mn, 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 FY23, the company reached revenues of €60mn;
- **Chroma ATE Inc.:** listed on the Taiwan stock exchange with a market capitalization of €3.4bn, 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 FY23, the company reached revenues of €0.6bn;
- **Teradyne Inc.:** listed on NASDAQ with a market capitalization of €20.6bn, Teradyne Inc. supplies automation equipment for test and industrial applications. In FY23, the company reached revenues of €2.5bn. It operates through the:
 - Semiconductor Test segment, 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, which comprises the defense and aerospace, storage test, and production board test business unit;
 - Wireless Test segment 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, which supplies collaborative robots that work side by side with production workers.

- **Technoprobe SpA:** listed on Milan Stock Exchange with a market capitalization of €5.8bn, Technoprobe SpA engages in the development, design, and manufacture of probe cards used for testing non-memory or system-on-chip semiconductors. In FY23, the company reached revenues of €0.4mn.
- **FAE Technology SpA:** listed on the Milan Stock Exchange with a market capitalization of €70mn, 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 €61mn of revenues in FY23.

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



Via della Posta, 10 – Piazza Affari, 20123 Milano – Italy
Tel: +39.02.83424007 Fax: +39.02.83424011
segreteria@ktepartners.com