EEMS
ITALY / Utilities

1H Results

NR *(Unchanged)*
Target: NR *(Unchanged)*
Risk: High

STOCK DATA	**Ord**
Price €	0.6
Bloomberg code	EEMS IM
Market Cap. (€ mn)	27
Free Float	85%
Shares Out. (mn)	43.6
52-week range	0.62 - 1.58
Daily Volumes (mn)	0.17

PERFORMANCE	**1M**	**3M**	**12M**
Absolute	-20.1%	-48.3%	-55.6%
Rel. to FTSE all shares	-9.3%	-18.3%	-21.1%

MAIN METRICS	**2010**	**2011E**	**2012E**
Revenues	192	172	205
EBITDA	31	17	26
Net income	-3	-13	-3
Adj. EPS - € cents	-6.6	-29.0	-6.7
DPS ord - € cents	0.0	0.0	0.0

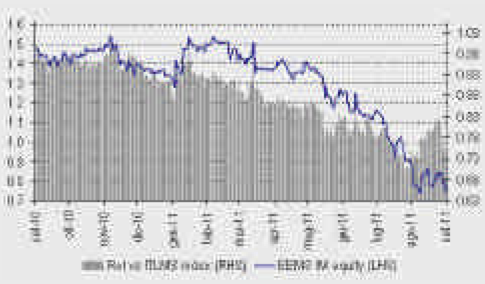
MULTIPLES	**2010**	**2011E**	**2012E**
P/E adj	nm	nm	nm
EV/EBITDA rep	1.9 x	4.2 x	2.6 x

REMUNERATION	**2010**	**2011E**	**2012E**
Div. Yield ord	0.0%	0.0%	0.0%
FCF yield	99.9% **	-45.8%	16.0%

*** including proceeds from sale of assets*

INDEBTEDNESS	**2010**	**2011E**	**2012E**
net financial position	-30	-42	-38
Debt/EBITDA (adj)	0.9 x	2.4 x	1.5 x
Interests cov (adj)	6.6 x	5.1 x	8.3 x

PRICE ORD LAST 365 DAYS



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MORE TIME TO RECOVER.

EEMS interim results were weak as a result of a standstill situation in the Solar industry and prolonged difficulties in the Semis market. Volumes and profitability are expected to recover in the coming months (improvements in July and August), although at a slower pace. We are cutting estimates in the region of 15%-30% in terms of Ebitda and -5/-10 € mn in terms of Net Income.

■ Weak interim results for both solar and semis

The deadlock situation in the solar industry (till May) caused by a change in the regulation mechanisms (4th Conto Energia), as well as a prolonged delay with the switch to 50 nm technology by Nanya are the root of the weak interim numbers reported:

- **Revenues decreased by -7% YoY to 73.4 €mn**
- **Ebitda reduced by -72% to 4.3 € mn**
- **Ebit shrank by around -10 € mn to a loss of -10.4 € mn**
- **Net income from continuing operations down by -9 € mn to a loss of -9.5 €mn.**
- **Nfp deteriorated by -21 € mn to -50.6 €mn**

■ Improvements expected from 2H although at a slower pace.

For the solar segment in particular, reported difficulties were largely expected, considering the slowdown in installation following the approval of the 4th Conto Energia, the consequent reduction of Incentives (trimming -25% reduction in the price of modules) as well as an inventory build-up in the months of March and April.

We expect the situation (both in solar and semis) to gradually improve during the second part of the year (Solsonica today reported record sales in the June-August period), with volumes and profitability gradually recovering, **but still at a lower rate than originally forecast.**

As a consequence, we are adjusting our estimates for the coming years in the region of -8%/-17% in terms of revenues , -15%-30% in terms of Ebitda and -5/-10 € mn for Net Income.

■ Group profile.

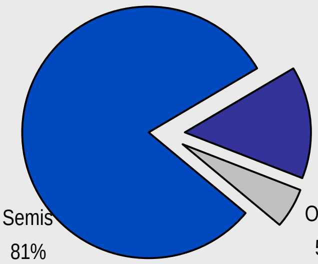
The EEMS Group is one of the leading operators in the assembly, testing and finishing of semiconductor memories as well as one of the main Italian producers of photovoltaic cells & modules. The group has also recently been diversifying downstream with the development of complete solutions for the design and production of photovoltaic systems:

- **We believe the above mentioned factors offer investors a unique profile within the industry.** Whereas following restructuring the Semiconductors business is now stabilizing, the solar business still offers strong opportunities for the coming years. The on-going technological evolution of new cells and panels (increasing efficiencies and lower costs) allows Solsonica to exploit and leverage the strong industrial background of Eems in the field of semis.
- **We welcome the group strategy.** The downstream diversification of EPC activities is a natural transition, considering the stage of development of the Solar industry.
- **We expect Eems to achieve interesting growth rates in the coming years,** with 7% Ebitda Cagr in the 2010-2014 period and NI to move up by 13 € mn from a loss of -3 € mn in 2010. Solar market fundamentals remain solid while the recovery of the memory market and the transition to 50nm technology will also allow for a margin recovery in the semiconductors business.

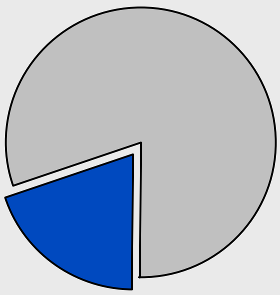
BUSINESS DESCRIPTION

The EEMS Group, which is controlled by EEMS ITALIA Spa, is among the leading operators at world level in the assembly, testing and finishing of semiconductors memories. Through its subsidiary Solsonica Spa, it produces also photovoltaic cells and modules and develops complete solutions for the design and realisation of photovoltaic systems

EBITDA COMPOSITION - 2011



GEOGRAPHICAL EXPOSURE - 2011



MAIN FIGURES € mn	2008	2009	2010	2011E	2012E	2013E
Revenues	**154**	**134**	**192**	**172**	**205**	**227**
Growth	-	-13%	44%	-10%	19%	11%
EBITDA	**26**	**26**	**31**	**17**	**26**	**35**
Growth	-	-2%	23%	-45%	49%	34%
Adjusted EBITDA	**26**	**26**	**31**	**17**	**26**	**35**
Growth	-	-2%	23%	-45%	49%	34%
EBIT	**-45**	**-15**	**-1**	**-14**	**-1**	**10**
Growth	-	-66%	-96%	2094%	-90%	-816%
Profit before tax	**-49**	**-21**	**-5**	**-17**	**-5**	**8**
Growth	-	-56%	-75%	220%	-74%	-273%
Net income	**-35**	**-20**	**-3**	**-13**	**-3**	**5**
Growth	-	-43%	-86%	350%	-77%	-273%
Adj. net income	**-35**	**-20**	**-3**	**-13**	**-3**	**5**
Growth	-	-43%	-86%	350%	-77%	-273%

MARGIN	2008	2009	2010	2011E	2012E	2013E
Ebitda Margin	16.9%	19.1%	16.4%	10.1%	12.6%	15.2%
Ebitda adj Margin	16.9%	19.1%	16.4%	10.1%	12.6%	15.2%
Ebit margin	-29.3%	-11.6%	-0.3%	-8.1%	-0.7%	4.4%
Pbt margin	-31.5%	-16.0%	-2.8%	-10.0%	-2.2%	3.4%
Ni rep margin	-22.8%	-15.1%	-1.5%	-7.3%	-1.4%	2.2%
Ni adj margin	-22.8%	-15.1%	-1.5%	-7.3%	-1.4%	2.2%

SHARE DATA	2008	2009	2010	2011E	2012E	2013E
EPS - € cents	na	-47.6	-6.6	-29.0	-6.7	11.7
Growth	-	-	-86%	339%	-77%	-273%
Adj. EPS - € cents	na	-47.6	-6.6	-29.0	-6.7	11.7
Growth	-	-	-86%	339%	-77%	-273%
DPS ord - € cents	na	0.0	0.0	0.0	0.0	0.0
BVPS - €	na	2.5	2.6	2.3	2.2	2.3

VARIOUS - € mn	2008	2009	2010	2011E	2012E	2013E
Capital employed	203	188	140	139	132	128
FCF	na	-7	54	-12	4	9
Capex	-16	-16	-18	-14	-14	0
Working capital	1	13	2	17	16	16

INDEBTNESS - €mn	2008	2009	2010	2011E	2012E	2013E
net financial position	-75	-83	-30	-42	-38	-29
D/E (adj)	na	0.79 x	0.27 x	0.43 x	0.39 x	0.29 x
Debt/EBITDA (adj)	na	3.2 x	0.9 x	2.4 x	1.5 x	0.8 x
Interests cov (adj)	na	4.4 x	6.6 x	5.1 x	8.3 x	15.3 x

MARKET RATIOS	2008	2009	2010	2011E	2012E	2013E
P/E ord	na	nm	nm	nm	nm	5.3 x
P/E ord Adj	na	nm	nm	nm	nm	5.3 x
PBV	na	0.5 x	0.2 x	0.3 x	0.3 x	0.3 x
P/CF	na	-18.7 x	0.9 x	-4.1 x	1.7 x	1.2 x

EV FIGURES	2008	2009	2010	2011E	2012E	2013E
EV/Sales rep	na	1.1 x	0.3 x	0.4 x	0.3 x	0.3 x
EV/EBITDA rep	na	5.5 x	1.9 x	4.2 x	2.6 x	1.7 x
EV/EBIT	na	-9.1 x	-92.8 x	-5.2 x	-48.2 x	5.9 x
EV/CE	na	0.7 x	0.4 x	0.5 x	0.5 x	0.5 x

REMUNERATION	2008	2009	2010	2011E	2012E	2013E
Div. Yield ord	na	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield	na	-13.6%	203.4%	-45.8%	16.0%	32.7%
ROE	na	-19.2%	-2.5%	-12.9%	-3.1%	5.1%
ROCE	na	-6.0%	-0.3%	-6.7%	-0.7%	5.3%

Source: EQUITA SIM estimates and company data

AS EXPECTED, A WEAK 1H IN BOTH SOLAR AND SEMIS.

The block in the solar industry caused by the change in the regulation mechanisms (4th Conto Enegia) as well as the prolonged unbalance between demand and supply in the semis industry are at the base of the weak numbers reported in 1H and 2Q 2011 results. As anticipated in our previous reports, this is not surprising as 1H have been particularly challenging for the group especially in light of the relevant changes to the incentive regulation for the PV industry.

In the 6 months:

- **Revenues decreased by -7% YoY to 73.4 €mn**
- **Ebitda reduced by -72% to 4.3 € mn**
- **Ebit reduced by around -10 € mn to a loss of -10.4 € mn**
- **Net income from the continuing activities reduced by -9 € mn to a loss of -9.5 €mn.**
- **Nfp deteriorated by -21 € mn to -50.6 €mn**

In the following table a summary of the reported results for the 1H 2011 (the difference between the Continuing and reported activities, refers to the sales of the Singapore activities in 2010).

1H RESULTS SUMMARY

	REPORTED NUMBERS					
	1H 2010	1H 2011	Grt YoY	2Q 2010	2Q 2011	Grt YoY
Revenues	79.1	73.4	-7%	50.8	35.8	-29%
Ebitda	15.4	4.3	-72%	10.9	1.0	-90%
Ebit	-0.5	-10.4	-10 € mn	2.6	-6.1	-9 € mn
Net income continuing activities	-0.4	-9.5	-9 € mn	na	na	na
Net income reported	3.9	-9.5	-13 € mn	6.5	-5.1	-12 € mn
Nfp (year end & current)	-29.5	-50.6	-21 € mn	-29.5	-50.6	-21 € mn

Source: EQUITA SIM & company data

SOLAR DIVISION: Expecting better trend in Cells/Panel production but delays in the EPC activities.

As we mentioned above, **following the approval of the 4th Conto Energia incentive scheme, the solar segment has been influenced by a severe stoppage to sales activities** (especially in the months between March and May) pending approval of the new regulatory framework **and,** subsequently during the second quarter, **by a sharp decrease in the average selling price (-20-25%)** caused by a reduction in incentives levels. Greater competition from available stocks built up in the previous months also contributed to an increase in difficulties.

Such conditions have not been accompanied by a corresponding reduction in raw material costs, thus leading to significant margin reductions:

- **Revenues have decreased by -21% to 18.6 €mn**
- **Ebitda has dropped by -6€ mn to a loss of -2.7 € mn** (from profits of 2.9 € mn posted last year)

In the following table is a summary of 1H and 2Q results of the solar division.

SOLAR SEGMENT RESULTS

	1H 2010	1H 2011	Growth YoY	2Q 2010	2Q 2011	Growth YoY
Sales	30.1	42.5	41%	23.6	18.6	-21%
Ebitda	**2.2**	**-2.1**	**-4 € mn**	**2.9**	**-2.7**	**-6 € mn**
Ebitda margin	7%	-5%	nm	12%	-15%	nm

Source: EQUITA SIM & company data

As described above, this was largely expected anyway following publication of the new regulations and was a little bit better than expected for Solsonica, whose cells/panel production activities have progressively recovered, with volumes and margins back to reasonable levels in the past weeks (group today reported record sales in the months from June to August, at +48% YoY).
On the down side, we believe that the "commercial network" construction for the EPC activities (in small installation – 3KW and 20KW) is behind schedule vs our expectation and that the diversification of the group downstream in the value chain will therefore take longer.

As a consequence of the above mentioned considerations **we are**:

- **Improving our ebitda expectation for 2011 in order to account for the expected recovery of cells/panel activities** from a loss of -3 € mn to a loss of -0.7€ mn. We believe the group even has room to outperform our estimates but the uncertainties around the possible market developments in the 4th quarter (when the "registry of big plants" will already be closed) currently warrant a slightly more cautious stance.
- **Reducing Ebitda estimates for the period 2012-2014, assuming smoother development of the commercial network** in Solsonica Energia (which we expect to be at full capacity from 2013 onwards).

In the following table is a summary of the changes applied to the solar division.

SOLAR DIVISION					
	2010	**2011**	**2012**	**2013**	**2014**
Old Sales	110.2	110.2	110.2	110.2	110.2
Change	0.0	-8.2	13.9	25.4	60.3
New Sales - € mn	**110.2**	**102.0**	**124.1**	**135.6**	**170.6**
Growth %	-	-7%	22%	9%	26%
Old Ebitda	11.2	-3.0	11.9	13.0	18.0
Change	0.0	2.2	-8.1	-4.1	-2.4
New Ebitda - € mn	**11.2**	**-0.7**	**3.8**	**8.9**	**15.6**
Growth %	-	nm	nm	131%	76%
Ebitda margin %	10%	-1%	3%	7%	9%
Cells production – MW	**30**	**34**	**36**	**36**	**36**
Modules sales - MW	**65**	**78**	**94**	**95**	**95**
Retail installation - EPC - 3KW	**0.0**	**0.0**	**2.0**	**5.0**	**11.0**
SMEs installation - EPC - 20KW	**0.0**	**0.5**	**4.5**	**8.0**	**18.8**

Source: EQUITA SIM & company data

As we explained in our Initiation of coverage report, we believe Eems has made a good start with its diversification downstream in the value chain towards EPC activities (Solsonica Energia and Kopernico), which will boost profitability in the coming months.
The new incentive scheme in fact leaves more opportunities to develop installation in this segment of the market (with no limits on volumes for the next 2 years and higher remuneration). The biggest difficulties lie in the development of an adequate commercial network able to leverage Solsonica's best competence in the field of cells/panel production into an effective sales strategy.

Finally, we believe progressive improvements in the acquisition costs of Wafers, Cells, as well as the premium granted to "made in Europe" equipment will also boost the profitability of pure "cells/module" production.

SEMICONDUCTOR DIVISION: Expecting better trend in Cells/Panel production but delays in the EPC activities.

As mentioned above, the prolonged unbalance between supply and demand in the Dram market as well as the delay in the shift to the 50 nm technology from the biggest client Nanya (around 4 € mn negative impact) caused :

- Revenues have decline by -35% to 17.3 €mn. This is mainly due to the lower volumes, as ASPs remained almost flat sequentially in the region of 0.41 USD
- Ebitda to decline by -41% to 4.1 € mn with lower revenues amplificated by the operating leverage.

In the following table a summary of the applied changes to the solar division.

SEMICONDUCTOR SEGMENT RESULTS

	1H 2010	1H 2011	Growth YoY	2Q 2010	2Q 2011	Growth YoY
Sales	48.2	31	41%	26.8	17.3	-21%
Ebitda	**13**	**6.8**	**-4 € mn**	**7**	**4.1**	**-6 € mn**
Ebitda margin	27%	22%	nm	26%	24%	nm

Source: EQUITA SIM & company data

Although situation should progressively recover in the second part of the year (with the 50nm conversion helping margin recovery) the run rate of market stabilization is proving to be weaker than expected.
As a consequence of the above mentioned considerations and the reported results in of the second quarter, we are reducing P&L estimates for 2011-2014:

- Revenues down by -8/-10x% in the period mainly to the lower expected volumes sales,
- Ebitda down by -12/-14% mainly due to the lower volumes. We have not substantially changed reference Operating margin wich remains in the region of 27%/28%

We are not applying relevant changes to the already programmed capex program

In the following table a summary of the applied changes to the semis division.

SEMICONDUCTOR DIVISION

	2010	2011	2012	2013	2014
Old Sales	81.6	76.6	90.8	102.9	102.9
Change	0%	-8%	-11%	-11%	-11%
New Sales - € mn	**81.6**	**70.3**	**80.9**	**91.4**	**91.4**
Growth %	-	-14%	15%	13%	0%
Old Ebitda	18.9	19.9	25.0	28.3	28.3
Change	0%	-12%	-14%	-11%	-11%
New Ebitda - € mn	**18.9**	**17.6**	**21.4**	**25.1**	**25.1**
Growth %	-	nm	nm	17%	0%
Ebitda margin %	23%	25%	27%	28%	28%
Asp - $	**0.34**	**0.38**	**0.35**	**0.33**	**0.00**
Eur/Usd exchange rate	**1.33**	**1.42**	**1.42**	**1.42**	**1.42**

Source: EQUITA SIM & company data

OVERALL REDUCTION

The above described changes are summarized in the following table. The overall applied change is in the regin of -8%/-17% at revenues level and -15%-30% at Ebitda level and -5/-9 € mn at Net Income level. The summary of the changes is in the following table

TOTAL CHANGES					
	2010	**2011**	**2012**	**2013**	**2014**
Old Sales	192.1	186.9	246.1	264.3	286.2
Change	0%	-8%	-17%	-14%	-8%
New Sales - € mn	**192.1**	**172.5**	**205.2**	**227.2**	**262.2**
Growth %	**-**	**-10%**	**19%**	**11%**	**15%**
Old Ebitda	31.5	18.3	38.3	42.6	47.7
Change	0%	-5%	-33%	-19%	-13%
New Ebitda - € mn	**31.5**	**17.3**	**25.8**	**34.5**	**41.3**
Growth %	**-**	**nm**	**nm**	**34%**	**20%**
Ebitda margin %	**16%**	**10%**	**13%**	**15%**	**16%**
Old Net income	-2.8	-11.8	5.6	10.9	15.3
Change	0	-0.9 € mn	-8.5 € mn	-5.8 € mn	-5.1 € mn
New net income - € mn	**-2.8**	**-12.7**	**-2.9**	**5.1**	**10.2**
Growth %	**-**	**nm**	**nm**	**-273%**	**109%**

Source: EQUITA SIM & company data

RECORD SALES IN THE JUNE-AUGUST PERIOD

As we anticipated above and in our previous notes**, we expect the situation to gradually recover in coming months.**
In favour of our view, Solsonica announced today, record panel sales in the period from June to August at +48% YoY, and for an amount of 30 MW.

Although marginality have significantly decreased for the already described situation, this is an important step which highlights the “normalization” trend after the difficulties of the 1H period.

COVENANTS RE-DEFINITION AN IMPORTANT STEP IN COMING WEEKS.

As we highlighted in our initiation of coverage report, **one of the main issues with EEMS is the stringent level of covenants that has applied to its debt restructuring** (see our note “EEMS :Towards a new equilibrium” of 25th of May 2011).
As a result of the difficult situation described above, EEMS did in fact breach the main reference covenants at the end of the first half. Although we recognize that this situation is potentially risky (banks may be allowed to demand advance repayment of the loan), we believe it is caused by “temporary” factors in the previous months, in particular:

- **A ramp-up in “inventory”** levels after the stoppage caused by the change in regulations (around 7 mn in 6 months) which we believe will be absorbed in the coming weeks)
- **The repayment of tax debts** (around 6 € mn) in the first 6 months
- **The lower results vs 2010** as a consequence of the previously described market conditions

which **lead to a significant deterioration in working capital, to higher debt and worse financial ratio.** Nonetheless, the company is reporting an improving situation during the 3rd quarter, which should gradually lead to working capital recovery and ratio stabilization. In the meantime, **EEMs has asked its lenders to**

revise the main reference metrics in order to account for the "external" situation caused by changes to the regulatory framework. Although we believe the probability of a positive revision is very high, the situation must be monitored closely as it may lead Eems to choose a different strategy going forward (ie. disposal of semiconductor activities).

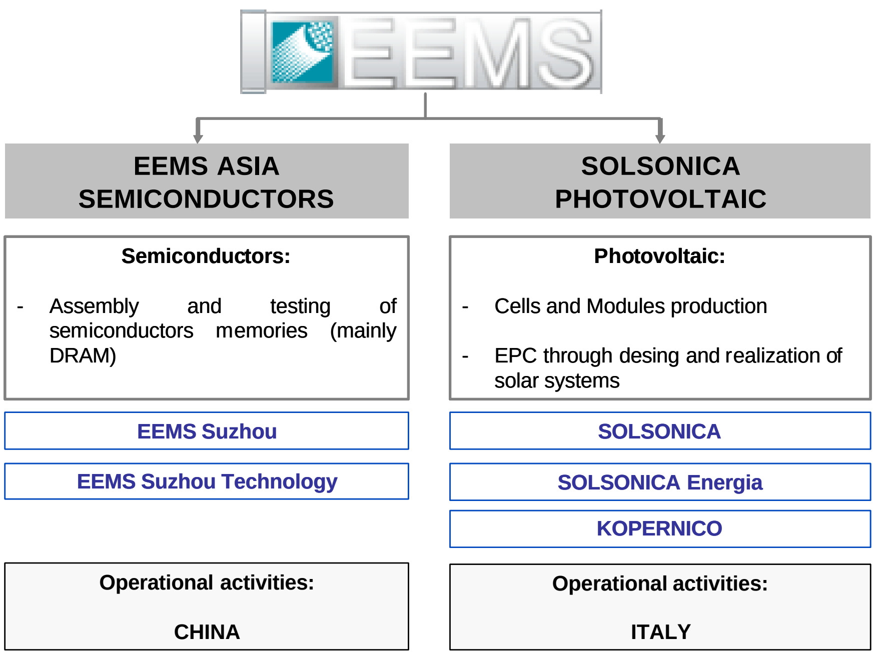
INVESTMENT CASE SUMMARY: a unique profile in the tech space

The EEMS Group, which is controlled by EEMS ITALIA Spa**, is among the leading operators at world level in the assembly, testing and finishing of semiconductors memories. Through its subsidiary, Solsonica Spa, it produces also photovoltaic cells and modules, and develops complete solutions for the design and realisation of photovoltaic systems.** Its headquarters are in Cittaducale (Rieti Italy), with a strong operational presence in China.

The activities can consequently be summarized as follows:

- **Semiconductors:** the division is active in services of assembly and testing of semiconductor memories (mainly DRAM) with a wide variety of applications both in consumer products (computers, TLC electronics, etc,) and other types of applications (industrial automations, applications in the automotive and medical fields).
- **Photovoltaic:** The division is active in the production of both cells and modules through Solsonica but is also active in the EPC business through the design and realization of solar systems

MAIN ACTIITIES



Source: EQUITA SIM on Company presentation

■ A clear strategy although "timing" is crucial.

We believe the above mentioned positions offers to the investors a unique profile in the industry. While, after the restructuring, the Semiconductors business is now stabilizing (thanks to already closed transition to the new production technologies) the solar business offer still strong opportunities for the coming years. The increasing technological evolution of the new cells and panels (increasing efficiencies and lower costs) allows Solsonica to exploit and leverage the strong industrial background in Eems in the field of semis.

PILLARS OF THE STRATEGY

STRATEGY: Semiconductors	STRATEGY: Photovoltaic
- Consolidation of managed activities and client base - Possible divestment	- Expansion of cells/panel production capcity - Leadeship in EPC activities for retail & SME.

Source: EQUITA SIM on company presentation

As you can see from the previous graphs, the strategy of the group is articulated as follows:

1. **Semiconductors: Consolidation of the currently managed activities and client base** since they are still too reliant on a few numbers of clients
2. **Solar: Expansion of the cells/panel production activities and downstream diversification of the EPC activities in the field of retail solar installations**.

We judge positively the group strategy. While we believe that the presence in the semis business could offer strong insight in a "silicon" base business like the cells and panel production, the downstream diversification of the EPC activities is a natural transition, considering the stage of development of the Solar industry (reduced allowed returns and increased competition**).**

The only criticism is the need to "accelerate" the construction/rump up of the commercial network, needed to boost the new business (EPC) diversification. The solar segment is, in fact, rapidly evolving (in terms of regulatory allowances and competition), with a 2 year window of still interesting opportunities in the retail segment (no cap to volumes for the installations).

- **Good potential growth opportunities.**

2011 is going to be a challenging period for Emms as a consequence of the above described market situation (mainly the change in the reference regulation of the solar market). Anyway, **in case the group prove to be successful in the development of the EPC commercial network, we believe it could be able to post an interesting growth in coming year, with an 8% cagr of sales and Ebitda in the period 2010-2014 and a growth in Net Income to 14 € mn from the loss of -3 € mn registered in 2010.** We believe, in fact, that :

1. **the new incentive scheme on solar (4th Conto Energia) still provides for reasonable market fundamentals in coming years** (3000 MW each year through 2016) allowing for stabilization of the margins in panels production and for an increase of the market share in the EPC activities (we estimate around 2% for Solsonica).
2. **the stabilization/recovery of the memory market and the transition to the 50nm technology will allow also for margins recovery in the semiconductor business.**

In the following table a summary of the main expected P&L metrics.

MAIN REFERENCE METRICS P&L						
	2010	2011	2012	2013	2014	Cagr 2010-2014
Semiconductors	82	70	81	91	91	3%
Solar	110	102	124	136	171	12%
Other (Eems Italia & elisions)	0	0	0	0	0	1%
REVENUES	**192**	**172**	**205**	**227**	**262**	**8%**
Growth %	43.8%	-10.2%	19.0%	10.7%	15.4%	-
Semiconductors	19	18	21	25	25	7%
Solar (cells/modules)	11	2	4	4	6	-14%
Solar (epc)	0	-3	0	5	16	>100%
Other (Eems Italia & elisions)	1	1	1	1	1	-22%
EBITDA	**31**	**17**	**26**	**35**	**41**	**7%**
Growth %	23.2%	-44.9%	48.6%	33.9%	19.6%	-
Margin %	16.4%	10.1%	12.6%	15.2%	15.7%	-
NET INCOME - € mn	**-3**	**-13**	**-3**	**5**	**10**	**13 € mn**
Growth %	nm	nm	nm	-273.1%	101.3%	-
Margin %	-1.5%	-7.3%	-1.4%	2.2%	3.9%	-

Source: EQUITA SIM estimates and company data

As you can observe, the main growth in revenues is expected from the Solar activities (+12% in the period 2010-2014).
At Ebitda level, the recovery of the DRAM segment (+7%) and in the growth in Epc activities (cagr >100%) will more than compensate for the expected reduction in the cells/modules segment (-14%) from the peak registered in 2010 (booming market) and penalized from the increased pricing pressure, regulatory uncertainties and reduced incentives.

For what regards the BS position, we have already highlighted in the previous paragraph the short term difficulties linked to the break up of the main covenants.
We believe, anyway, the majority of the "stress" in the indebtedness position is caused by the already described change in the solar regulation, whose effect (principally the reduction in the Inventories expected in the 3rd quarter.)

In the following table a summary of the expected investments and the NFP evolution in coming years.

MAIN REFERENCE METRICS BS						
	2010	2011	2012	2013	2014	Cumulated 2010-2014
Semiconductors	-12	-11	-12	-14	-21	-37
Solar	-3	-3	-2	-2	-3	-7
Other (Eems Italia & elisions)	-3	-3	-3	-3	0	-8
Capex	**-18**	**-16**	**-17**	**-19**	**-15**	**-52**
Net Financial position	**-30**	**-37**	**-36**	**-29**	**-16**	-
Debt /Ebitda	-0.9 x	-2.2 x	-1.4 x	-0.8 x	-0.4 x	-

Source: EQUITA SIM estimates and company data

■ Main reference market metrics. Positive and negatives.

In the following table a summary of the main reference metrics for the Eems at current market prices:

MARKET RATIOS						
	2010	2011	2012E	2013E	2014E	2015E
P/E	nm	nm	nm	5.3 x	2.6 x	2.2 x
PBV	0.2 x	0.3 x	0.3 x	0.3 x	0.2 x	0.2 x
P/CF	0.9 x	-4.1 x	1.7 x	1.2 x	1.1 x	0.9 x

Source: EQUITA SIM estimates and company data

EV FIGURES						
	2010	2011	2012E	2013E	2014E	2015E
EV/Sales rep	0.3 x	0.4 x	0.3 x	0.3 x	0.2 x	0.1 x
EV/EBITDA rep	1.9 x	4.2 x	2.6 x	1.7 x	1.1 x	0.5 x
EV/EBITDA adj	1.9 x	4.2 x	2.6 x	1.7 x	1.1 x	0.5 x
EV/CE	0.3 x	0.4 x	0.3 x	0.3 x	0.2 x	0.1 x

Source: EQUITA SIM estimates and company data

INDEBTNESS						
	2010	2011	2012	2013 E	2014 E	2015 E
NFP	30	42	38	29	16	-8
D/E (adj)	0.27	0.43	0.39	0.29	0.14	n.m.
Debt/EBITDA (adj)	0.9 x	2.4 x	1.5 x	0.8 x	0.4 x	nm
Interests cov (adj)	6.6 x	5.1 x	8.3 x	15.3 x	40.0 x	n.m.

Source: EQUITA SIM estimates and company data

We believe the Eems group:

- **is well positioned in the industry;** thanks to the consolidated experience in both semis and cells/panel;
- **is correctly diversifying downstream**; the control of the value chain and the perceived high quality products ensure Eems a good competitive advantage in favour of market share improvement.

On the negative side, we think that covenants on debt could slow down growth opportunities (although we don't see main risk on debt repayment), in a market with high volatility and strong pricing pressure (with consequent needs for volumes and scale advantage), **while the uncertainties due to the new regulation on solar reduces visibility in the short term**.

SWOT ANALYSIS

Strength

- Consolidated experience in the semiconductor space to be leveraged in the new solar business
- Well known brand (quality) in both Dram/Cells/Panel production
- Geographical location close to main clients in the semis space

Weaknesses

- Stressed financial situation and stringent covenants slow down growth opportunities;
- Market high volatility & typical pricing pressure in semiconductor space
- Still limited size in EPC

Opportunities

- Solar is still in the middle of a growth phase Downstream diversification could offer good opportunities
- Consolidation in solar of an excessively fragmented market could offer M&A potentials.
- Possible disposal of remaining semis business can improve indebtedness

Threat

- Italian budget constraint could force regulator to put in place severe regulatory changes in the solar space
- Prolonged unbalance between supply/demand in the Dram space could additionally reduce profitability.
- Difficulties to finance new production output capacity expansion causing bottlenecks.

STATEMENT OF RISKS

The primary elements that **could negatively impact the solar division include**:
- Any negative change in incentive schemes and Feed In Tariffs
- Arising pricing pressure on global panels oversupply
- Prolonged competition in the EPC market development

The primary elements that **could positively impact the solar division include**:
- Strong demand for installation for the coming years
- Relevant improvement in international silicon procurement costs
- Concentration of the market to cost advantage on scale achievement

The primary elements that **could negatively impact the semis division include**:
- Significant deterioration in the reference macroeconomic scenario
- Significant increase in short term interest rates
- higher price pressure due to either competition or strong end-users demand
- quicker than expected technological evolution requiring increase in capex

The primary elements that **could positively impact the semis division include**:
- Significant improvement in the reference macroeconomic scenario
- Significant decrease in short term interest rates
- lower price pressure due to either lower competition or weak end-users demand
- conquest of a new client reducing the client portfolio concentration

P&L	2008	2009E	2010E	2011E	2012E	2013E
Revenues	**154**	**134**	**192**	**172**	**205**	**227**
Growth	-	-13%	44%	-10%	19%	11%
Total opex	-128	-108	-161	-155	-179	-193
Growth	-	-16%	49%	-3%	16%	7%
Margin	-83%	-81%	-84%	-90%	-87%	-85%
EBITDA	**26**	**26**	**31**	**17**	**26**	**35**
Growth	-	-2%	23%	-45%	49%	34%
Margin	17%	19%	16%	10%	13%	15%
Depreciation& amortization	-41	-39	-32	-31	-27	-24
Provisions	-30	-2	0	0	0	0
Depreciation&provistion	**-71**	**-41**	**-32**	**-31**	**-27**	**-24**
EBIT	**-45**	**-15**	**-1**	**-14**	**-1**	**10**
Growth	-	-66%	-96%	2094%	-90%	-816%
Margin	-29%	-12%	0%	-8%	-1%	4%
Net financial profit/Expenses	-3	-6	-5	-3	-3	-2
Profits/exp from equity inv	0	0	0	0	0	0
Other financial profit/Exp	0	0	0	0	0	0
Total financial expenses	**-3**	**-6**	**-5**	**-3**	**-3**	**-2**
Non recurring pre tax	0	0	0	0	0	0
Profit before tax	**-49**	**-21**	**-5**	**-17**	**-5**	**8**
Growth	-	-56%	-75%	220%	-74%	-273%
Taxes	**-585**	**-2,520**	**-2,811**	**-3,022**	**-3,285**	**-3,407**
Tax rate	9%	28%	33%	33%	33%	33%
Minoritiy interests	**0**	**0**	**0**	**0**	**0**	**0**
Non recurring post tax	0	0	2	0	0	0
Net income	**-35**	**-20**	**-3**	**-13**	**-3**	**5**
Growth	-	-43%	-86%	350%	-77%	-273%
Margin	-23%	-15%	-1%	-7%	-1%	2%
Adj. net income	**-35**	**-20**	**-3**	**-13**	**-3**	**5**
Growth	-	-43%	-86%	350%	-77%	-273%
Margin	-23%	-15%	-1%	-7%	-1%	2%

CF Statement	2008	2009	2010	2011	2012	2013
Cash Flow from Operations	na	17	29	18	19	26
(Increase) decrease in OWC	na	-12	11	-15	1	1
(Purchase of fixed assets)	na	-16	-18	-14	-14	0
(Other net investments)	na	7	23	-2	-2	-18
(Distribution of dividends)	na	0	0	0	0	0
Rights issue	na	0	0	0	0	0
Other	na	-3	8	0	0	0
(Increase) Decrease in Net Debt	**na**	**-7**	**54**	**-12**	**4**	**9**

Source: EQUITA SIM estimates and company data

INFORMATION PURSUANT TO ARTICLE 69 ET SEQ. OF CONSOB (Italian securities & exchange commission) REGULATION no. 11971/1999

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HOLD	-5% <ETR< 10%	-5% <ETR< 15%	0% <ETR< 20%
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Date	Rec.	Target Price (€)	Risk	Comment
nil				

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	COMPANIES COVERED	COMPANIES COVERED WITH BANKING RELATIONSHIP
BUY	49.4%	51.9%
HOLD	44.3%	44.2%
REDUCE	5.7%	3.8%
NOT RATED	0.6%	0.0%