MONTANARO
ASSET MANAGEMENT

BLOG

Technoprobe: Europe's Quiet AI Champion

By Adam Montanaro
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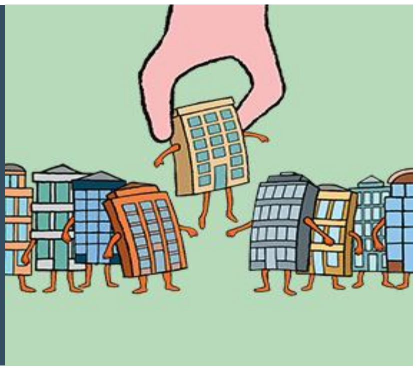


The fact we are top 20 investors in a quality Italian family-controlled business covered by a single-digit-number of sellside analysts will surprise none of our clients given our propensity to back quality businesses with strong founder managers for the long-term. The fact this under-the-radar stock now has a market cap >$25bn and has outperformed Nvidia by c.175% over the last 2 years, however, might:

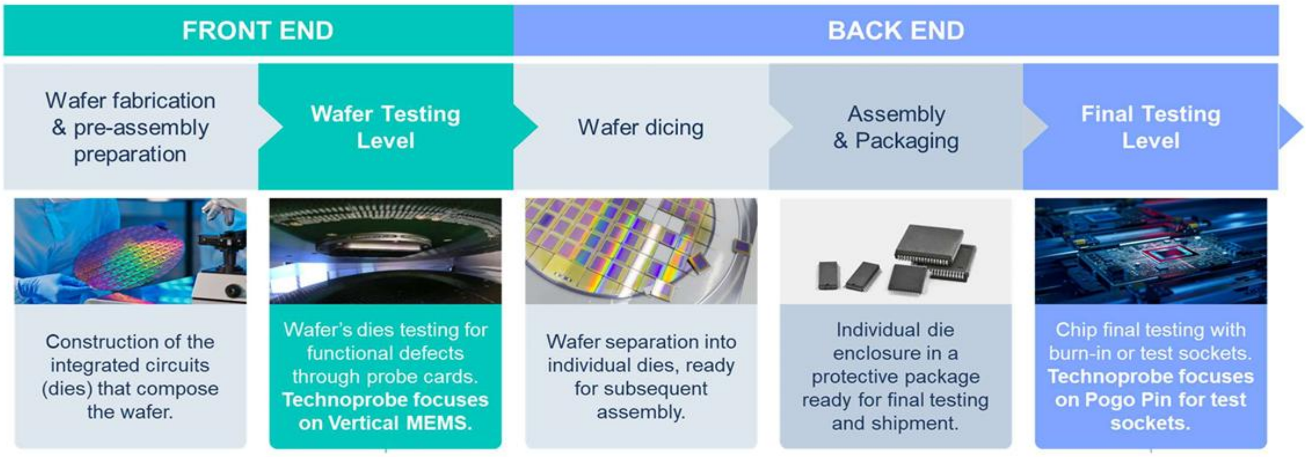
Range: 05/31/2024 –05/29/2026 **Period:** Monthly **No. of Period**: 24 Months

Security	Currency	Price Change	Total Return	Difference	Annual Eq
TPRO IM Equity	EUR	253.19%	253.19%	174.11%	88.26%
NVDA US Equity	EUR	78.98%	79.08%	--	33.93%

Amidst growing concerns that the value creation from the emergence of LLMs and the wider AI complex is all accruing to the US, it is gratifying to have discovered one of the key AI winners on our doorstep.

Technoprobe is a provider of probe cards which are used to test the functionality of chips during the semiconductor fabrication process which is a horrendous oversimplification of what is ultimately an incredibly technically complex process. There are multiple ways to do this testing but there are only 2 companies in the world capable of producing the highest end ‘MEMS’ probe card that Technoprobe specialises in, and Technoprobe have the lion’s share of the market at the most complex end:

Testing in the semiconductor manufacturing process

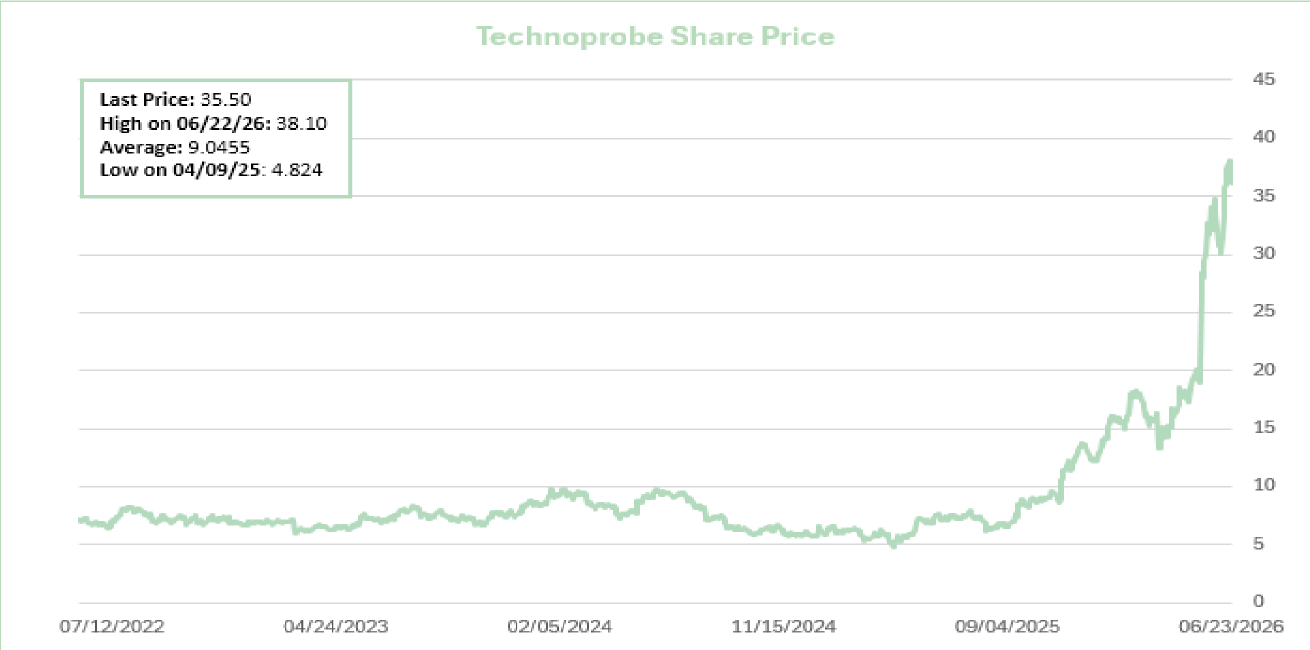


In ‘the old days’ (a couple of years ago…!) most chips produced were simple, and cheap, enough to be tested with older technologies. Yet we’ve been witnessing a substantial transformation in the semiconductor landscape with Moore’s Law (transistors on a chip doubling every 2 years) ending as cramming ever more transistors onto a single piece of silicon became incredibly difficult, expensive, and physically limited by the laws of physics. Instead, we’ve emerged into a ‘More than Moore’ world where the likes of Nvidia and AMD have been evolving their architectures from one single monolithic chip to a ‘chiplet’ concept combining multiple specialist chips into one. With memory becoming an increasing AI ecosystem bottleneck the introduction of ‘high bandwidth memory’, essentially stacking multiple memory chips on top of an underlying processor, has brought further added complexity.

Currently an individual Nvidia Blackwell GPU, if you can even get your hands on it, will set you back a cool $40k. Funnily enough, Nvidia doesn’t particularly fancy taking the risk that any of the chiplets in the Blackwell may fail, so it has to test them all. Technoprobe has >90% market share at Nvidia. Blackwell has 2 GPUs at its heart, whilst the next-generation Rubin Ultra has 4. We’re currently in the generation 3 of HBM (‘HBM3’), which has 12 layers of DRAM; HBM5 will have up to 20. Meanwhile, increasingly hyperscalers are favouring designing their own chips (custom ASICs) to reduce Nvidia’s control of the value chain, which means more chip designs and more volume for Technoprobe, and we haven’t even begun to talk about the opportunities presented by silicon photonics (one for the next blog!)

The Technoprobe thesis in a nutshell is that rising complexity leads to higher test intensity and growing demand for the advanced testing they specialise in. Having also only ever worked in the ‘logic’ side of the semiconductor market, high-bandwidth memory has now presented a sizeable new addressable market for the company. In other words, the market over the last couple of years has moved towards them.

Simple as this sounds, our thesis here required patience. Having first invested in June 2022 at c.€6/share, we had to sit patiently and watch the market punish the company for making what proved to be 2 highly strategic, but immediately earnings-dilutive, acquisitions in pursuit of the bigger testing prize. But this gave us a chance to continue building positions across 4 of our eligible funds/mandates. It is one of many occasions where we have witnessed the benefits of a visionary controlling owner who can plan and invest on a multi-year horizon with less concern about quarterly earnings volatility:



The first trip to their facilities back in 2022 and the various deep dives we've done with management subsequently gave us the conviction to back the company and invest through the noise.

We think Technoprobe is a great example of the benefits of being active, long-term conviction investors in a market increasingly dominated by passive holders and short-term traders, and we're excited to see how some of our other 'future Technoprobes' fare in the coming years. If you'd like to talk to us about Technoprobe, the semiconductor ecosystem or indeed any other investment topics please do reach out!

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