



inTEST Corporation (INTT)

3Q:17 EPS Slightly Better Than Forecast; Think Solid Ambrell Backlog And Sales Pipeline Augur Well Thorough 2019; Favorable ATE Trend On The Horizon; Maintain \$10 Price Target

	2016	2017E		2018E		2019E	
		OLD	NEW	OLD	NEW	OLD	NEW
Mar.	\$0.01	\$0.21A		\$0.14	\$0.16		\$0.17
June	0.05	0.16A		0.25	0.23		0.25
Sep.	0.11	0.19	0.20A	0.25	0.23		0.25
Dec.	<u>0.10</u>	<u>0.18</u>	<u>0.16</u>	<u>0.16</u>	<u>0.17</u>		<u>0.19</u>
EPS	\$0.28	\$0.74	\$0.74	\$0.81	\$0.80		\$0.87
P/E			10.9x		10.1x		9.3x

Note: NR = Not Rated. Risk Ratings: H = Highly risky; M = Moderately risky. 2016 exclude \$0.02 and 2017, 2018 and 2019 exclude \$0.12, \$0.08 and \$0.08, respectively, of amortization of acquired intangible assets. .NC = Not covered by Sidoti & Company, LLC.

Year	2010	2011	2012	2013	2014	2015	2016	2017E	2018E	2019E
Rev.(Mil.)	\$46.2	\$47.3	\$43.6	\$39.4	\$41.7	\$38.9	\$40.3	\$65.2	\$73.5	\$75.5
GAAP EPS	\$0.72	\$0.96	\$0.21	\$0.30	\$0.33	\$0.18	\$0.26	\$0.68	\$0.72	\$0.79

Description: inTest Corporation (www.intest.com) designs, manufactures and markets systems, parts and services for the testing of wafers and integrated circuits in the semiconductor market. The company also provides test applications to non-semiconductor industries. Through the Ambrell acquisition (closed May 2017), inTest sells induction heating systems for industrial manufacturing applications. Headquarters are in Mt. Laurel, New Jersey.

- **3Q:17 EPS came in at \$0.20, up significantly from \$0.11 in 3Q:16 and marginally better than our forecast of \$0.19. (see Exhibit 1)**
- **Revenue from the legacy business retrenched modestly from the peak posted in 1H:17, as expected, and Ambrell reported \$4.9 million in revenue in 3Q:17.**
- **3Q:17 Ambrell bookings were a solid \$6.4 million and the sales pipeline remains strong. Opportunities in certain growth markets look particularly interesting.**
- **We expect Ambrell to generate operating income in 4Q:17, compared with a loss in 3Q:17. Ambrell acquisition reduced reliance on the ATE (automated testing equipment) business and presents attractive growth opportunities for INTT.**
- **We estimate ATE revenue will remain elevated given the favorable semi-conductor equipment outlook for 2018-2019. We forecast a slight decrease in the legacy non-ATE thermal business and a 10% sales CAGR for Ambrell. Based on that, we forecast EPS will expand to \$0.80 and \$0.87 in 2018 and 2019, respectively.**
- **Balance sheet held \$11.5 million in cash and no debt at the close of 3Q:17. We estimate free cash flow will help drive the cash balance to \$24 million by the end of 2019.**
- **Our unchanged \$10 price target is based on 11x our newly introduced 2019 EPS estimate of \$0.87. (Previously, we valued the stock at 12x our prior 2018 EPS estimate of \$0.81 to derive the same target.)**
- **We think a slightly lower P/E is warranted given the extended horizon out to 2019.**

3Q:17 EPS came in slightly better than our forecast, despite a slight revenue shoffall. Revenue came in at \$17.4 million, up significantly from \$11 million a year earlier, but was \$650,000 below our forecast, and just below the low end of the guidance range of \$17.5-\$18.5 million. In the quarter, certain operating hiccups affected Ambrell product shipments. The problem was quickly resolved. Non-ATE revenue (including Ambrell) represented 47% of the total in 3Q:17; Ambrell lessens the company's reliance on the highly cyclical semi-conductor equipment business. Operating income was \$2.7 million, compared with our forecast of \$2.1 million, largely driven by a reduction in contingency liability which we view as

NR

Price Target: \$10

Price: \$8.05

Risk Rating: M

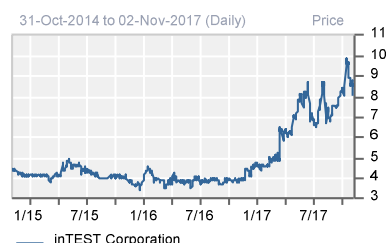
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Key Statistics

Analysts Covering	2
Market Cap (Mil)	\$80
Enterprise Value	\$76
52-Week Range (NYSE)	10-4
5-Year EPS CAGR	11%
Avg. Daily Trading Volume	106,000
Shares Out (Mil)	10.402
Float Shares (Mil)	7.970
Insider Ownership	18%
Institutional Holdings	44%
Annualized Dividend	Nil
Dividend Yield	N/A
FCF Per Share (2019E)	\$0.80
FCF Yield (2019E)	9.9%
Net Cash Per Share (2019E)	\$2.40
Price to Book Value	2.0x
Return on Equity (2019E)	17.7%
Total Debt to Capital	Nil
Interest Coverage Ratio	N/A
Short Interest %	1.9%
Short Interest Days To Cover	0.8
Russell 2000	1,497
Russell 2000 – Last 12 Months	25.6%
INTT – Last 12 Months	98.8%



inTEST Corporation

Source: FactSet Prices

a one-time item. Excluding this benefit and amortization of intangibles of about \$600,000, and helped by a lower tax rate, EPS came in at \$0.20, compared with our projection of \$0.19 and at the mid-point of management implied non-GAAP operating EPS guidance of \$0.18-\$0.22.

Our 2017-2018 forecasts are largely unchanged and we introduce 2019 projections. We are encouraged by the strong bookings at Ambrell (\$6.4 million in 3Q:17) and the \$5.9 million in backlog exiting 3Q:17. Based on these metrics, management is confident in record quarterly revenue in 4Q:17. Revenue strength will likely propel bottom line results from an operating loss in 3Q:17 to a profit in 4Q:17. Notwithstanding the improvement in Ambrell profitability, we project a sequential decline in EPS in 4Q:17, reflecting a less favorable mix of the legacy business. Looking into 2018, the sales pipeline is solid and is populated with new business opportunities in several high growth markets such as auto and consumer products. Thus, we project about 10% growth in pro-forma Ambrell revenue. We think the legacy business (ATE and non-ATE) will remain steady and favorable despite a pull back from the peak performance in 1H:17. Our view is supported by the strength in EMS bookings, the positive outlook for the semi-conductor equipment industry and positive comments from INTT's peers. All told, we estimate EPS will expand to \$0.80 in 2018, from \$0.74 in 2017. We model another 10% increase in Ambrell revenue in 2019 and EPS of \$0.87, from \$0.80 in 2018.

The balance sheet is solid and the company generates plenty of free cash flow. At the close of 3Q:17, INTT had \$11.5 million in cash and no debt. We project free cash flow of \$6.9 million (\$0.67 per share), \$7.3 million (\$0.70), and \$8.3 million (\$0.80) in 2017, 2018 and 2019, respectively. By yearend 2019, we model that the company will remain debt free and hold cash of about \$25 million (\$2.40 per share). Strong free cash flow provides ample capacity for acquisitions. We think INTT will likely focus on digesting the Ambrell acquisition in the near term. However, management is clear about the M&A strategy, with the thermal non-semiconductor sector a key focus in the long term. We would not be surprised if the company makes acquisitions in the manufacturing tools market.

We maintain a \$10 price target on INTT shares. When valuing INTT, we consider the company's strength in the thermal business, recent restructuring efforts in the EMS business and the Ambrell deal that reduced exposure to the cyclical semi-conductor end market. We think the company is currently in an upcycle, that cooled off from a near-term peak, but still respectable results will likely extend into 2019. We apply an 11x multiple (in line with our 5-year EPS CAGR projection) to our new 2019 EPS estimate of \$0.87 to arrive at an unchanged \$10 price target. (Our previous valuation was based on 12x our 2018 EPS projection of \$0.81.) Alternatively, we use a sum-of-the-parts methodology as another way to value INTT shares. Across the cycle, the core business generates EBITDA of \$0.62 per share; applying a 10x multiple, we arrive at \$6.20. We think Ambrell has the potential to post at least \$0.29 per share in annual EBITDA by 2019-2020 and also value that at 10x to arrive at \$2.90. To these values, we add about \$1.00 per share in cash at the close of 3Q:17 to arrive at a total value of about \$10.

Key Risks	lumpy business	change in macro environment	
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Exhibit 1: INTT 3Q:17 Earnings Results and Variance

(\$ in thousands, except EPS)	3Q:17 Actual	3Q:17 Estimate	\$ Variance	% Variance	3Q:16 Actual	\$ change y/y	% Change y/y
Revenue	\$17,352	\$18,000	(\$648.0)	-3.6%	\$10,832	\$6,520.0	60.2%
GAAO operating Income	\$2,741	\$2,155	\$586.0	27.2%	\$1,704	\$1,037.0	60.9%
non-GAAP EPS	\$0.20	\$0.19	\$0.01	5.3%	\$0.11	\$0.09	81.8%

Sources: Company reports and Sidoti & Co. estimates

INTEST CORPORATION

inTEST Corporation

Table 1 Income Statement

(\$ in thousands, except per share amounts)

	2015					2016					2017E					2018E	2019E
	Mar	Jun	Sep	Dec		MarA	JunA	Sep	Dec		Mar	Jun	Sep	Dec			
Net revenue	\$ 38,889	\$ 8,674	\$ 10,485	\$ 10,832	\$ 10,272	\$ 40,263	\$ 14,180	\$ 15,888	\$ 17,352	\$ 17,800	\$ 65,220	\$ 17,050	\$ 19,450	\$ 19,450	\$ 17,550	\$ 73,500	\$ 75,500
<i>Growth (year-over-year)</i>	-7.0%	-14.9%	-9.3%	17.7%	29.4%	3.5%	63.5%	51.5%	60.2%	73.3%	62.0%	20.2%	22.4%	12.1%	-1.4%	12.7%	2.7%
Cost of revenue	20,191	4,607	5,156	5,255	4,867	19,885	6,452	7,467	8,556	9,345	31,820	8,781	9,920	9,920	9,038	37,658	37,928
Gross profit	18,698	4,067	5,329	5,577	5,405	20,378	7,728	8,421	8,796	8,455	33,400	8,269	9,531	9,531	8,512	35,842	37,572
Selling expense	5,797	1,335	1,471	1,394	1,367	5,567	1,668	1,871	2,322	2,300	8,161	2,300	2,300	2,300	2,300	9,200	9,384
Engineering and product development expense	3,935	991	982	905	782	3,660	935	982	1,139	1,140	4,196	1,140	1,140	1,140	1,140	4,560	4,651
G&A expense	6,404	1,645	2,145	1,574	1,641	7,005	1,994	3,286	3,143	2,743	11,166	2,743	2,743	2,743	2,743	10,972	11,191
Restructuring and other one time items	0	0	0	0	0	0	0	0	(549)	0	(549)	0	0	0	0	0	0
Operating income	2,562	96	731	1,704	1,615	4,146	3,131	2,282	2,741	2,272	10,426	2,086	3,348	3,348	2,329	11,110	12,345
<i>Growth (year-over-year)</i>	-47.9%	-85.9%	-55.4%	NM	NM	61.8%	NM	212.2%	60.9%	40.7%	151.5%	-33.4%	46.7%	22.1%	2.5%	6.6%	11.1%
Other income (expenses)	21	28	18	17	(2)	61	41	54	100	100	295	100	100	100	100	400	400
Pretax income	2,583	124	749	1,721	1,613	4,207	3,172	2,336	2,841	2,372	10,721	2,186	3,448	3,448	2,429	11,510	12,745
Income tax expense	722	43	263	631	612	1,549	1,094	891	823	878	3,686	765	1,207	1,207	850	4,029	4,461
Net income	1,861	81	486	1,090	1,001	2,658	2,078	1,445	2,018	1,494	7,035	1,421	2,241	2,241	1,579	7,482	8,284
<i>Growth (year-over-year)</i>	-45.9%	-81.5%	-55.0%	NM	NM	42.8%	NM	NM	85.1%	49.3%	164.7%	-31.6%	55.1%	11.0%	5.6%	6.3%	10.7%
EPS - basic	\$ 0.18	\$ 0.01	\$ 0.05	\$ 0.11	\$ 0.10	\$ 0.26	\$ 0.20	\$ 0.14	\$ 0.20	\$ 0.15	\$ 0.68	\$ 0.14	\$ 0.22	\$ 0.22	\$ 0.15	\$ 0.73	\$ 0.80
EPS- diluted	\$ 0.18	\$ 0.01	\$ 0.05	\$ 0.11	\$ 0.10	\$ 0.26	\$ 0.20	\$ 0.14	\$ 0.19	\$ 0.14	\$ 0.68	\$ 0.14	\$ 0.22	\$ 0.21	\$ 0.15	\$ 0.72	\$ 0.79
EPS- diluted non-GAAP	\$ 0.20	\$ 0.01	\$ 0.05	\$ 0.11	\$ 0.10	\$ 0.28	\$ 0.21	\$ 0.16	\$ 0.20	\$ 0.16	\$ 0.74	\$ 0.16	\$ 0.23	\$ 0.23	\$ 0.17	\$ 0.80	\$ 0.87
<i>Growth (year-over-year)</i>	-41.4%	-72.3%	-52.1%	NM	NM	36.6%	NM	NM	80.0%	60.0%	NM	-24.6%	43.1%	17.1%	3.6%	8.1%	8.9%
Weighted average shares- dilute	10,494	10,404	10,311	10,319	10,297	10,333	10,295	10,335	10,351	10,369	10,335	10,387	10,405	10,423	10,441	10,410	10,486
EBITDA	3,300	273	882	1,900	1,800	4,800	3,300	2,700	3,100	2,672	11,772	2,486	3,748	3,748	2,729	12,710	13,945
Margin analysis:																	
Gross margin	48.1%	46.9%	50.8%	51.5%	52.6%	50.6%	54.5%	53.0%	50.7%	47.5%	51.2%	48.5%	49.0%	49.0%	48.5%	48.8%	49.8%
selling expense as a % of revenue	14.9%	15.4%	14.0%	12.9%	13.3%	13.8%	11.8%	11.8%	13.4%	12.9%	12.5%	13.5%	11.8%	11.8%	13.1%	12.5%	12.4%
R&D expense as a % of revenue	10.1%	11.4%	9.4%	8.4%	7.6%	9.1%	6.6%	6.2%	6.6%	6.4%	6.4%	6.7%	5.9%	5.9%	6.5%	6.2%	6.2%
G&A expense as a % of revenue	16.5%	19.0%	20.5%	14.5%	16.0%	17.4%	14.1%	20.7%	18.1%	15.4%	17.1%	16.1%	14.1%	14.1%	15.6%	14.9%	14.8%
Operating margin	6.6%	1.1%	7.0%	15.7%	15.7%	10.3%	22.1%	14.4%	15.8%	12.8%	16.0%	12.2%	17.2%	17.2%	13.3%	15.1%	16.4%
EBITDA margin	8.5%	3.1%	8.4%	17.5%	17.5%	11.9%	23.3%	17.0%	17.9%	15.0%	18.0%	14.6%	19.3%	19.3%	15.5%	17.3%	18.5%
Taxrate	28.0%	34.7%	35.1%	36.7%	37.9%	36.8%	34.5%	38.1%	29.0%	37.0%	34.4%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%

non-GAAP numbers exclude amortization of acquired intangibles

Sources: Company reports and Sidoti estimates

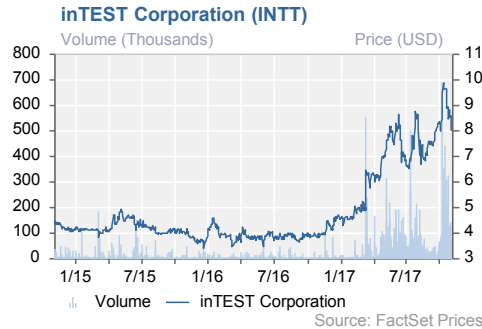
Appendix Required Disclosures

Required Disclosures

inTEST Corporation (INTT-\$8.05) NR Price Target: \$10 Risk Rating: M

Rating and Price Target History Table

Action	Date	Px	Rating	PT	Risk Rating
Rating	4/23/15	4.1	N/a	N/A	
Rating	4/23/15	4.1	Deleted	7	
Initiation	9/5/17	7.6	NR	10	M



Key Risks	lumpy business	change in macro environment	
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Valuation:

- Our unchanged \$10 price target is based on 11x our newly introduced 2019 EPS estimate of \$0.87. (Previously, we valued the stock at 12x our prior 2018 EPS estimate of \$0.81 to derive the same target.)

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APPENDIX CONTINUED

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