

Action Summary – 13 March 2018

Analyst Theodore R. O'Neill *is re-initiating coverage of INTT with a Buy rating and a \$12 price target*

- Company executing well on strategic plan to enter new markets with 54% of bookings last quarter coming from non-legacy customers up from 20% five years earlier
- Company has improved profitability and lowered cyclicity relative to historical trends
- Growing addressable market is now \$620M up from \$220M
- Valuation appears attractive at 2.1x book and P/E of 12
- Company has no debt and both cash and book value are growing.
- We forecast 9% revenue growth in 2018 and 3% in 2019 which we feel is conservative

Current share price: \$8.05	Market cap: \$83.7 million	2019 P/E: 12	EV/2018 Sales: ~1.0
Shares outstanding: 10.4 million	Insider ownership: 4%	Avg. trading volume: 60,000	Dividend: NA

Macroeconomic context

- Robust growth in U.S. GDP will be a tailwind in 2018
- With no debt, an increase in rates will not impact our earnings model

Non-GAAP estimates (EPS in dollars – Revenue in millions)

Period	EPS	Revenue	Op Margin
1Q17A	\$0.21	\$14.2	22.1%
2Q17A	\$0.16	\$15.9	14.4%
3Q17A	\$0.20	\$17.3	12.6%
4Q17A	<u>\$0.31</u>	<u>\$19.4</u>	<u>15.4%</u>
FY17A	<u>\$0.88</u>	<u>\$66.8</u>	<u>15.8%</u>
1Q18E	\$0.16	\$18.0	11.9%
2Q18E	\$0.18	\$19.0	12.5%
3Q18E	\$0.13	\$17.5	9.7%
4Q18E	<u>\$0.13</u>	<u>\$18.0</u>	<u>10.0%</u>
FY18E	<u>\$0.60</u>	<u>\$72.5</u>	<u>11.1%</u>
1Q19E	\$0.15	\$18.0	10.8%
2Q19E	\$0.21	\$20.0	13.9%
3Q19E	\$0.19	\$19.0	12.8%
4Q19E	<u>\$0.15</u>	<u>\$18.0</u>	<u>10.4%</u>
FY19E	<u>\$0.70</u>	<u>\$75.0</u>	<u>12.1%</u>

Note: Number may not add due to rounding. See our full model in the back of this report. Excel versions available.

Cash balance (in millions)

- | | |
|---------|----------|
| • 2017A | • \$13.3 |
| • 2018E | • \$17.0 |
| • 2019E | • \$25.5 |

Debt (in millions)

- | | |
|---------|----------|
| • 2017A | • \$0.00 |
| • 2018E | • \$0.00 |
| • 2019E | • \$0.00 |

Note: The company has a borrowing capacity of \$20 million.

EBITDA (in millions)

- | | |
|---------|----------|
| • 2017A | • \$10.5 |
| • 2018E | • \$7.8 |
| • 2019E | • \$8.8 |

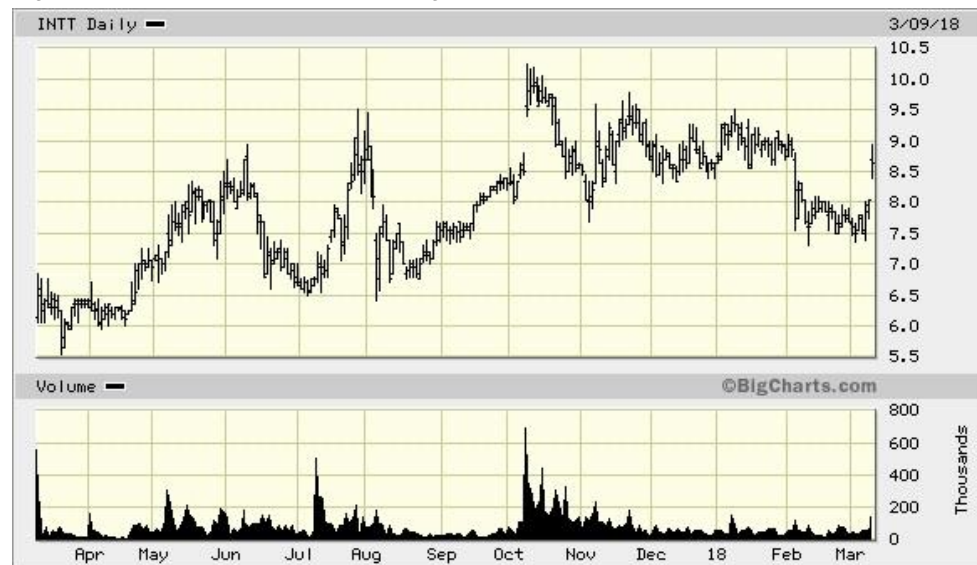
Risks/Valuation

- Growth rate above ~GDP is dependent on acquisitions and new product development
- Trading volume is low. The three month average is 60,000 shares/day
- Our \$12 target is derived using a synthetic dividend discount model, details of which can be found in this report

Company description: inTEST is an independent designer, manufacturer and marketer of thermal, electrical and mechanical products and fixtures used by multiple industries including, aerospace, automotive, energy, industrial, semiconductor and telecommunications industries.

Figure 1 – inTEST Corporation - Trading snapshot

Trading volume @ 60K is light making it difficult to build or unwind a significant position



Source: BigCharts.Marketwatch.com

ViewPoint

We like the growth, the growing cash and valuation

- 1) We like the stock because management has done an outstanding job of executing on growth through acquisition
- 2) It has successfully diversified away from the legacy semiconductor business
- 3) It has no debt and we forecast a growing cash balance
- 4) There are no significant capital expenditures this year or next (<\$2M 2018)
- 5) Valuation is low with the shares trading at a discount to comparable peers as shown in the table below
- 6) Although trading volume is light, it is 4x larger than it was five years ago. It would be helpful for liquidity if the company had a managed offering

Comparable Table

Company	Price	Market Value	Shares		Sales	EBIT	EBITDA	Enterprise	Enterprise
			Outstanding	Diluted (millions)				Value	Value/EBIT
inTEST	8.05	83.8	10.4	72.3	57.7	9.2	10.7	7.84x	6.77x
Average	23.96	3,278.2	110.5	2,815.7	1,034.4	162.6	204.4	17.69x	12.73x
Median	22.15	1,116.1	74.8	1,081.3	548.4	59.4	91.7	15.14x	11.79x
<u>Peers</u>									
Cohu	22.15	632.2	29.6	485.5	352.7	38.3	47.5	12.66x	10.21x
Teradyne	49.00	9,575.7	196.0	8,163.9	2,136.6	539.4	641.4	15.14x	12.73x
Xcerra	10.99	603.5	55.5	436.8	461.1	59.3	65.7	7.36x	6.65x
FormFactor	15.30	1,116.1	74.8	1,081.3	548.4	47.1	91.7	22.95x	11.79x
Advantest	22.37	4,463.3	196.9	3,910.9	1,673.3	128.9	175.7	30.35x	22.26x

Source:FactSet

Financial Analysis

The company has \$13.3 million (or \$1.28 per share) in cash and no debt. DSOs average in the low 30s and inventory turns are in the teens. Operating income as a percent of sales was 15.4% in the most recent quarter (4Q17) but a more sustainable margin would be in the low teens.

Forecasts

Our forecast assumes a slowing growth rate. 2017 was an unusual year for growth because it included a major acquisition (Ambrel). The 66% growth rate we are showing for 2017 was primarily due to the acquisition of Ambrel, but even without Ambrel, YoY growth was 32%.

Price Target

Our price target is derived using a modified dividend discount model. Assuming all the earnings stream flows to a single investor exclusive of what is needed to reinvest in the business, what is the value of that stream? We start with our earnings estimates, grow them near term faster than GDP then over the course of the next 10 years scale back growth until it matches GDP. We then discount those “dividends” at 5%. This model probably understates the tax benefits thus could be seen as understating the price target but offsetting this is that the model never shows a decline in earnings and thus we feel the two balances out each other. The model suggests a price target of \$15, which we discount 20% due to the low trading volume, which gets us to \$12.

Field Work

We have made multiple visits to the company over many years. Our next visit will occur in the next six months.

Company Overview

inTEST is an independent designer, manufacturer and marketer of thermal, electrical and mechanical products that are used by multiple industries including semiconductor, automotive, aerospace, industrial, semiconductor and telecommunications.

Through a successful acquisition strategy over the last 18 years, inTEST has diversified itself into a global equipment provider to multiple industries. Historically, INTT has focused on the semiconductor market providing components and systems to IC manufacturers who are in turn focused on end markets such as cell phones, telecom and datacom systems, Internet access devices, computers, transportation and consumer electronics.

inTEST’s business is managed and reported as two segments: Thermal Products, which includes the recently acquired Ambrel and EMS. The EMS segment includes all the electrical and mechanical products that were the core of the legacy business.

Segments and Products


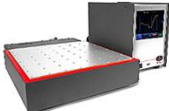


Thermal Segment

The Thermal segment includes products that precisely regulate the temperature of a device, product or system (inTEST Thermal Solutions or iTS) and Ambrel which makes induction heating systems.

iTS

Think of the equipment in this segment as industrial, but highly precise, refrigerators that can cook food as well. Its thermal products are sold into the environmental test market encompassing a wide variety of industries including the ATE, automotive, consumer electronics, defense/aerospace, energy and telecommunications industries. INTT thermal products enable a manufacturer to test semiconductor wafers and ICs, electronic components, mechanical assemblies and electromechanical assemblies and systems under various temperatures that represent a real world environment.

Figure 2 – inTEST Corporation - iTS Product Line

			
<p>Sigma Systems Thermal Chambers Compressor based or cryogenic cooling from -185 to 500°C.</p> <ul style="list-style-type: none"> • Cooling up to 100°C/min. • Optimized for device size, access, and throughput • Designs for RF, Vibration, MEMS, LED, Tensile - MIL-STD and commercial applications 	<p>Sigma Systems Thermal Platforms (Plates) Compressor based or cryogenic cooling from -100 to 250°C.</p> <ul style="list-style-type: none"> • Cooling up to 100°C/min. • Variety of enclosures, hole patterns, & plate dimensions • Designed for low profile device conditioning - MIL-STD and commercial applications 	<p>Temptronic Direct Contact Thermal Systems ThermoSpot® bench top systems for isolating DUT exposure to temperature. High reliability cooling without TE modules.</p> <ul style="list-style-type: none"> • IC test and characterization • -65 to 175°C • up to 55W at -55°C • In-circuit or test socket 	<p>Temptronic Portable Temperature Forcing Systems ThermoStream® for -100 to 300°C rapid thermal cycling. New ECO-friendly system - less energy, operates with very low noise.</p> <ul style="list-style-type: none"> • No LN₂ or LCO, required • Up to 15°C/sec. • No annual leak checks required - per EU gas reg.



Low Temperature Fluid Chillers

Thermonics portable chillers are a family of highly reliable, process chillers for low and ultra-low temperature, process cooling. These chillers are compatible with a variety of heat transfer fluids, providing high capacity cooling for demanding applications in industries such as automotive, energy, chemical processing, industrial, and semiconductor.

The chiller systems are equipped with a touch screen controller featuring remote communications, real-time graphing, and system diagnostics to monitor chiller health and prevent down-time.

In-house capabilities including thermodynamic, mechanical, electrical, and software disciplines with on-site chiller manufacturing to ensure that your total chiller system will perform to specifications.

Available in both [Water-cooled](#) and [Air-cooled](#) configurations.

Source: inTEST Corporation

Ambrel

Ambrel's products involve heating only. Induction heating is a fast, efficient, precise, repeatable, non-contact method for heating metals or other electrically conductive materials. An induction heating system includes a power supply which converts line power from 60 cycles to an alternating current at a higher frequency, delivers it to a workhead and work coil creating an electromagnetic field within the coil. The work piece is placed in the coil where this field induces a current in the work piece causing its temperature to rise. The coil, which is water-cooled and cool to the touch, is placed around or adjacent to the work piece providing a non-contact heating solution. The heat is only generated by the induced current flowing in the work piece. The material of the work piece may be a metal such as steel, copper, aluminum or brass or it can be a semiconductor such as carbon, graphite or silicon carbide. To heat non-conductive materials such as plastics or glass, induction can heat an electrically conductive susceptor, typically graphite, which then transfers the heat to the non-conducting material. Induction heating is used in processes where temperatures are as low as 100 °C (212 °F) and as high as 3000 °C (5432 °F). It can be used in brief heating processes that are on for less than half a second and in heating processes that are on for months. Induction heating is used in domestic and commercial cooking, and in many applications such as melting, heat treating, preheating for welding, brazing, soldering, curing, sealing, shrink fitting in industry, and in research and development.

Figure 3 – inTEST Corporation – Ambrel Products



[1 kW - 10 kW]

EASYHEAT induction heating systems provide a reliable, compact solution for heating your parts with a quick, clean source of heat. Available in several models, all are ideal for repeatable, non-contact heating of your parts.



[10 kW - 500 kW]

Introducing our next generation EKOHEAT induction heating equipment, featuring VPA Technology, a first-of-its-kind in the induction heating industry. Our EKOHEAT product family has been redesigned, integrating our exclusive Versatile Performance Architecture (VPA).

Source: inTEST Corporation

Electrical and Mechanical Products (EMS segment)

INTT Electrical products include various types of tester interfaces; provide the electrical connections between the tester and the wafer prober or IC handler to carry the electrical signals between the tester and the probe card on the prober or the test socket on the handler. inTEST tester interfaces can be used with high speed, high frequency, digital or mixed signal testers used in testing ICs. It designs standard and modular interface products to address most possible tester/prober combinations on the market today. In



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In addition, it provides a custom design service that will allow any of its customers to use virtually any tester, probe or handler combination with any type of device, such as analog, digital, mixed signal and radio frequency. For example, the Centaur® modular interface is designed to provide flexibility and scalability by using replaceable signal modules, which can be easily changed, on the test floor as customers testing requirements change.

Manipulator Products

These are products designed to position and support the moveable component of an electronic tester that is used in the semiconductor industry. Think of these as the jack that lifts the car so you can change a flat tire. These systems do not actually perform the testing, and are ultra-precise, but testing of integrated circuits (ICs) cannot be done without them.

Patents

According to a search we conducted March 5, 2018, INTT held 60 U.S. patents and had 14 pending U.S. patent applications covering various aspects of its technology. Ambrel, which was acquired in May 2017, held two active and no pending patents.

Bookings

At December 31, 2017, INTT bookings of \$21.8M compared to revenue of \$19.4M for a book-to-bill of 1.12:1 compared with \$17.6M of bookings and \$17.4M of revenue for a book-to-bill of 1.01 in the previous quarter.

Employees

INTT has 218 full time employees.

Management

James Pelrin has served as inTEST's President and Chief Executive Officer since January of 2018 and as the company's Executive Vice President since November 2015, Chief Operating Officer, and director since May of 2017.

Mr. Pelrin served inTEST for the past 16 years, as Vice President since August 2006 and as General Manager - Thermal Products Segment since November 2004. In addition, Mr. Pelrin has served as President of our subsidiary, Temptronic Corporation, since December 2008. Prior to that, Mr. Pelrin served as the General Manager of Temptronic Corporation since joining us in October 2001. From July 1999 to June 2001, Mr. Pelrin served as Vice President and General Manager of Accusonic Technologies, Inc., a privately held company that designs and manufactures hydro-acoustic measurement systems.

Hugh T. Regan, Jr. is currently the Chief Financial Officer of inTEST Corporation. Hugh joined inTEST in 1996 as its CFO and took the company public in 1997. In addition to the financial management of inTEST, Hugh has managed the company's acquisition and divestitures of businesses both domestically and internationally. Prior to joining inTEST, Hugh worked for Value Property Trust (formerly known as Mortgage and Realty Trust), a real estate investment trust that had a portfolio of approximately \$800 million of owned properties and real estate loans. Hugh joined the Trust in 1985 as an Assistant Vice President and had a number of roles over his 12 years with the ultimately becoming Chief Financial Officer in 1995.

Hugh has been involved with his local Girl Scout council and the Girl Scouts of the United States of America for over 20 years. He has been on the Board of both and is currently a Task Group member. Hugh attended Rider University, has both Accounting and Finance degrees and is a CPA in the state of New Jersey.

Figure 4 - inTEST Corporation - Income Statement

(\$ in thousands except per share)

December year-end	2015 Year	2016 Year	2017				2017 Year	2018E				2018E Year	2019E				2019E Year
			Q1	Q2	Q3	Q4		Q1E	Q2E	Q3E	Q4E		Q1E	Q2E	Q3E	Q4E	
Total revenue	\$38,889	\$40,227	\$14,180	\$15,888	\$17,352	\$19,381	\$66,801	\$18,000	\$19,000	\$17,500	\$18,000	\$72,500	\$18,000	\$20,000	\$19,000	\$18,000	\$75,000
<i>Growth</i>	-7%	3%	64%	52%	60%	89%	66%	27%	20%	1%	-7%	9%	0%	5%	9%	0%	3%
Cost of Goods	20,191	19,849	6,452	7,467	8,556	9,636	32,111	9,000	9,481	8,750	9,000	36,231	9,000	10,000	9,500	9,000	37,500
Gross Profit	18,698	20,378	7,728	8,421	8,796	9,745	34,690	9,000	9,519	8,750	9,000	36,269	9,000	10,000	9,500	9,000	37,500
Gross Margin	48.1%	50.7%	54.5%	53.0%	50.7%	50.3%	51.9%	50.0%	50.1%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Selling	\$5,797	\$5,567	\$1,668	\$1,871	\$2,322	\$2,247	\$8,108	\$2,300	\$2,500	\$2,400	\$2,500	\$9,700	\$2,500	\$2,600	\$2,500	\$2,500	\$10,100
% of total revenue	15%	14%	12%	12%	13%	12%	12%	13%	13%	14%	14%	13%	14%	13%	13%	14%	13%
R&D	\$3,935	\$3,660	\$935	\$982	\$1,139	\$1,245	\$4,301	\$1,250	\$1,250	\$1,250	\$1,250	\$5,000	\$1,250	\$1,300	\$1,250	\$1,300	\$5,100
% of total revenue	10%	9%	7%	6%	7%	6%	6%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%
General and administrative	\$6,404	\$7,005	\$1,994	\$3,286	\$3,143	\$3,271	\$11,694	\$3,300	\$3,400	\$3,400	\$3,450	\$13,550	\$3,300	\$3,320	\$3,320	\$3,320	\$13,260
% of total revenue	16%	17%	14%	21%	18%	17%	18%	18%	18%	19%	19%	19%	18%	17%	17%	18%	18%
Total Operating Expenses	16,136	16,232	4,597	6,139	6,604	6,763	24,103	6,850	7,150	7,050	7,200	28,250	7,050	7,220	7,070	7,120	28,460
Operating Income	2,562	4,146	3,131	2,282	2,192	2,982	10,587	2,150	2,369	1,700	1,800	8,019	1,950	2,780	2,430	1,880	9,040
Operating Margin	6.6%	10.3%	22.1%	14.4%	12.6%	15.4%	15.8%	11.9%	12.5%	9.7%	10.0%	11.1%	10.8%	13.9%	12.8%	10.4%	12.1%
Total Other Items	21	61	41	54	649	(7,493)	(6,749)	(200)	(200)	(200)	(200)	(800)	(100)	(100)	(100)	(100)	(400)
Pre-Tax Income	2,583	4,207	3,172	2,336	2,841	(4,511)	3,838	1,950	2,169	1,500	1,600	7,219	1,850	2,680	2,330	1,780	8,640
Pre-Tax Margin	6.6%	10.5%	22.4%	14.7%	16.4%	-23.3%	5.7%	10.8%	11.4%	8.6%	8.9%	10.0%	10.3%	13.4%	12.3%	9.9%	11.5%
Taxes (benefit)	722	1,549	1,094	891	823	55	2,863	449	499	345	368	1,660	426	616	536	409	1,987
Tax Rate	28.0%	36.8%	34.5%	38.1%	29.0%	-1.2%	74.6%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%	23.0%
Net Income (loss)	1,861	2,658	2,078	1,445	2,018	(4,566)	975	1,502	1,670	1,155	1,232	5,559	1,425	2,064	1,794	1,371	6,653
Net Margin	4.8%	6.6%	14.7%	9.1%	11.6%	-23.6%	1.5%	8.3%	8.8%	6.6%	6.8%	7.7%	7.9%	10.3%	9.4%	7.6%	8.9%
EPS, as reported	0.18	0.26	0.20	0.14	0.19	(0.44)	0.09	0.14	0.16	0.11	0.12	0.54	0.14	0.20	0.17	0.13	0.64
non-GAAP EPS	0.18	0.28	0.21	0.16	0.20	0.31	0.88	0.16	0.18	0.13	0.13	0.60	0.15	0.21	0.19	0.15	0.70
Diluted Shares Outstanding	10,494	10,333	10,295	10,335	10,351	10,308	10,339	10,375	10,378	10,381	10,384	10,380	10,387	10,383	10,390	10,386	10,386

Sources: Company reports and Litchfield Hills Research, LLC

Figure 5 - inTEST Corporation - Balance Sheet

(\$ in thousands except per share)

December year-end	FY2019E	FY2018E	FY2017	FY2016	FY2015
Balance sheet					
Current Assets					
Cash and S.T.I.	\$25,511	\$16,959	\$13,290	\$28,611	\$25,710
Accounts receivable	14,000	13,000	12,166	5,377	4,395
Inventories	7,500	6,000	4,966	3,676	3,520
Other assets	19,000	22,000	26,529	342	639
Total Current Assets	66,011	57,959	56,951	38,006	34,264
Net PP&E	1,850	1,750	1,542	944	1,112
Other non-current assets	4,000	4,000	4,000	3,894	4,608
Total Assets	\$71,861	\$63,709	\$62,493	\$42,844	\$39,984
Current Liabilities					
Accounts payable	\$3,400	\$2,900	\$2,032	\$1,368	\$909
Accrued expenses	\$7,000	\$6,000	\$5,833	\$2,866	\$2,783
Deferred revenue	\$0	\$0	\$0	\$0	\$0
Other current liabilities	\$8,000	\$7,000	\$6,554	\$822	\$367
Total current liabilities	18,400	15,900	14,419	5,056	4,059
Revolving line of credit - LT	0	0	0	0	0
Other Liabilities	0	2,000	8,786	0	0
Total Liabilities	18,400	17,900	23,205	5,056	4,059
Stockholders' Equity					
Preferred stock	0	0	0	0	0
Common stock	104	104	104	104	105
Additional paid-in-capital	28,000	27,000	26,000	25,578	26,286
Retained earnings	24,857	18,205	12,646	11,671	9,013
Cum. Other comp and treasury stock	500	500	538	435	521
Total stockholders' equity	53,461	45,809	39,288	37,788	35,925
Total Liabilities and equity	\$71,861	\$63,709	\$62,493	\$42,844	\$39,984

Sources: Company reports and Litchfield Hills Research, LLC

Figure 6 - inTEST Corporation - Cash Flow

(\$ in thousands except per share)				
	FY19E	FY18E	FY17	FY16
Net Income	\$6,653	\$5,559	\$975	\$2,658
Accounts receivable	(1,000)	(834)	(6,789)	(982)
Inventories	(1,500)	(1,034)	(1,290)	(156)
Other assets	3,000	4,529	(26,187)	297
PP&E	(100)	(208)	(598)	168
Other non-current	0	0	(106)	714
Accounts payable	500	868	664	459
Accrued expenses	1,000	167	2,967	83
Deferred revenue	0	0	0	0
Other current liabilities	1,000	446	5,732	455
Revolving line of credit - LT	0	0	0	0
Other Liabilities	(2,000)	(6,786)	8,786	0
Preferred stock	0	0	0	0
Common stock	0	0	0	(1)
Additional paid-in-capital	1,000	1,000	422	(708)
Cum. trans. adj. and treasury stock	0	(38)	103	(86)
Dividends	0	0	0	0
Total Cash Flow	\$8,553	\$3,669	(\$15,321)	\$2,901

Sources: Company reports and Litchfield Hills Research, LLC

Disclosures:

Analyst Certification

We, the Litchfield Hills Research Department, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject company and the underlying securities.

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Receipt of Compensation

Litchfield Hills Research has not received compensation for advisory or investment banking services from the company in the past 12 months. Litchfield Hills has not received compensation for non-investment banking services from the company in the past 12 months. Litchfield Hills Research has entered into a contract with INTT to provide investment research and other investor relations services.

Ascendant Capital Markets, LLC has not received compensation for advisory or investment banking services from the company in the past 12 months. Ascendant Capital Markets, LLC has not received compensation for non-investment banking services from the company in the past 12 months.

Market Making

Neither Litchfield Hills Research, LLC nor Ascendant Capital Markets, LLC makes a market in the subject company's securities.

Additional information is available upon request. LHR accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to LHR. This report is not to be relied upon in substitution for the exercise of independent judgment.