Operator: Ladies and gentlemen, Greetings, and welcome to the inTEST Corporation First Quarter 2024 Financial Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Shawn Southard, Investor Relations. Please go ahead.

Shawn Southard: Good afternoon, everyone. We certainly appreciate your interest in inTEST Corporation and thank you for sharing your time with us today.

Joining me on our call are Nick Grant, our President and Chief Executive Officer, and Duncan Gilmour, our Chief Financial Officer and Treasurer.

You should have the earnings release which crossed the wires today aftermarket, as well as the slides that will accompany our conversation today. If not, you can find these documents on the investor relations section of our website, inTEST.com.

Please turn to **Slide 2** and I will review the Safe Harbor statement. During this call, management may make some forward-looking statements about our current plans, beliefs and expectations. These statements apply to future events that are subject to risks, uncertainties, and other factors that could cause actual results to differ materially from what is stated here today.

These risks, uncertainties and other factors are provided in the earnings release, as well as in other documents filed by the Company with the Securities and Exchange Commission. These documents can be found on our website or at sec.gov.

Also, management will refer to some non-GAAP financial measures. We believe these will be useful in evaluating our performance. You should not consider the presentation of this additional information in isolation or as a substitute for results prepared in accordance with GAAP. You can find reconciliations of non-GAAP measures with comparable GAAP measures in the tables that accompany today's release and slides.

Now, please turn to **Slide 3**, as I turn the call over to Nick. Nick?

Nick Grant: Thank you, Shawn, and good afternoon, everyone. Thanks for joining us for our first quarter 2024 earnings call.

The quarter came in about where we had expected, and I would like to thank the entire inTEST team for making that happen in a relatively tough environment.

Revenue of nearly $30 million was somewhat higher than expected while gross margin of 43.8% was lower driven primarily by the timing of the acquisition of Alfamation. With operating expenses coming in slightly lower than expected, EPS was 5 cents and was 10 cents on an adjusted basis.

Alfamation, which we owned for about 2 and a half weeks in the quarter, contributed $1.4 million of the $1.9 million revenue increase over the fourth quarter of last year. However, given the timing of the acquisition and having revenue and costs misaligned in a short stub period, they were a drag on gross margin. In a normalized quarter, we would expect their typical margins to be similar to ours.

We continue to execute our 5-Point Strategy which focuses our growth efforts in diversified markets and drives our strategic thinking. These efforts are helping as we manage through the tough semiconductor cycle. In fact, while they can be lumpy in their own rights, defense/aero and industrial remained solid markets for us in the quarter. The addition of Alfamation also provides us a meaningful position in the electronics and infotainment test space for the automotive industry which will provide further diversification.

Importantly, we continue to generate cash from operations and, even after the Alfamation acquisition where we used about $19 million, we ended the quarter with $27 million in cash. We believe this is adequate financial flexibility to keep advancing our transformation strategy.

Turning to **Slide 4**, I'll review orders and backlog. As we have been communicating since last November, the first half of 2024 was expected to be weaker than the second half of the year. However, we had a measurable change in order trends at the very end of the quarter that has now impacted our outlook for the year. Specifically, we had about $5 million in orders we had anticipated that were either delayed or reduced in size from expected levels.

Encouragingly, back-end semi was up sequentially showing signs of stabilization which we had noted on our year-end call. This helped to partially offset a notable decline in front-end orders in the first quarter.

One bright spot to note is our backlog is at a record $56 million at quarter end. The boost is directly the result of the acquisition with Alfamation contributing $22.8 million in backlog. You may recall that we had reported their backlog at about 13 million Euros when we acquired them. However, their accounting for revenue was based on a percentage of completion methodology. After the acquisition we concluded that under US GAAP, point in time revenue recognition is more appropriate. As a result of this change, acquired backlog increased to $22.4 million. Keep in mind that the accounting treatment is related to the timing of revenue recognition and does not impact our previous statements regarding Alfamation's annual revenue.

While its early days, the integration of Alfamation is progressing as planned. In fact, we have already jointly participated in trade shows and numerous customer interactions. We are really excited about Alfamation joining the inTEST team and all that we can do together to further our strategy.

With that, let me turn it over to Duncan to review the financials and outlook in more detail. Duncan, over to you.

Duncan Gilmour: Thank you, Nick.

Starting on **Slide 5**, revenue for the first quarter was $29.8 million including $1.4 million from Alfamation, which was acquired with only 19 days (or ~2.5 weeks) remaining in the quarter. The $2.1 million decline compared with Q1 2023 was driven by a $2.7 million decline in semi, partially offset by growth in the industrial and defense/aerospace markets.

Sequentially, first quarter revenue increased $1.9 million with semi revenue up 39% off of the exceptionally low 4th quarter while defense/aerospace was up 34%. Revenue from Alfamation was primarily in auto/EV, which helped offset a decline in that market within the organic businesses.

Moving to **Slide 6**, gross margin of 43.8% for the quarter contracted 80 basis points sequentially, driven by a 100-basis point negative impact from the stub period for Alfamation. This is just the result of a timing mismatch on recognition of revenue and expenses given the short ownership timeframe in Q1.

On a year-over-year comparison, gross margin contraction was a result of lower volume and product mix, as well as the aforementioned impact from the acquisition.

Our trailing twelve-month gross profit of $55 million, or 45.4% of sales, is in line with our updated outlook for this year of gross margin between 44% and 46%.

As you can see on **Slide 7**, our operating expenses were up $1.1 million versus the prior year, driven by higher corporate development expenses, incremental operating expenses inherited with the acquisition, and higher professional fees. As a percent of sales, OpEx increased 610 basis points to 42.2%.

Turning to **Slide 8**, you can see our bottom line and Adjusted EBITDA results.

For the quarter, net earnings were $662,000, or $0.05 per diluted share. Adjusted net earnings were $1.2 million, or $0.10 per diluted share. Adjusted EPS reflects adding back tax-effected acquired intangible amortization. On an after-tax basis, our acquired intangible amortization amounted to approximately $500,000, or about $0.05 per diluted share in the first quarter.

Adjusted EBITDA for Q1 was $1.8 million, representing a 6.1% adjusted EBITDA margin.

Slide 9 shows our capital structure and cash flow.

We had a solid quarter of cash generation, adding $2.1 million from operations. Capital expenditures in the first quarter were $300,000, unchanged from the prior-year period. Given our modest capital requirements to grow the organic business, free cash flow was $1.8 million.

Cash and equivalents at the end of the first quarter were $27.3 million, down $18 million from the trailing quarter, reflecting the use of approximately $19 million for the acquisition of Alfamation.

Borrowings increased in the quarter due to the $9 million in debt we assumed from the acquisition. We ended the quarter with total debt of $20.4 million which we believe is very manageable and reflects a total debt leverage ratio of 1.6x. During the quarter we repaid approximately $1 million of debt.

We continue to have $30 million available with our delayed draw term loan and an incremental $10 million available under our revolver. As announced on Friday, we extended the maturity date on these facilities by four years to May 2031 and the draw down period was extended two years to May 2026.

Turn to **Slide 10**, as we review our outlook for 2024.

For the second quarter, we are expecting revenue to be between $34 million and $36 million with gross margin of approximately 44% to 45%. Second quarter operating expenses, including amortization, are expected to be in the range of $14.5 million to $15 million. This range reflects the incremental operating costs gained from the acquisition of Alfamation and higher total intangible asset amortization. After tax, this is expected to be approximately $1.2 million or about 10 cents per share.

We are expecting EPS for the second quarter to be between breakeven to 6 cents per diluted share, while adjusted EPS should be approximately 10 cents to 16 cents per diluted share. As a reminder, we simply adjust for tax-effected amortization expense.

For our full year outlook, with the addition of Alfamation and the recent order trends Nick discussed, we now expect 2024 revenue to range from $140 to $150 million.

Gross margin for 2024 is expected to be approximately 44% to 46% with expected operating expenses of roughly $56 to $58 million. This includes tax-adjusted intangible asset amortization expense of approximately $4.1 million. Our expected effective tax rate is now projected to be about 17% to 19%.

For capital expenditures in 2024, we expect to run between 1% to 2% of sales.

As usual, our guidance does not include the potential impact from any non-operating expenses, such as corporate development, that may occur from time to time, nor does it include the potential impact from any additional acquisitions we may make.

With that, if you will turn to **Slide 11**, I will now turn the call back over to Nick.

Nick Grant: Thanks, Duncan.

In a tough macro environment, our team is keeping their heads down and executing our plan. We have been up against some heavy headwinds in the semi market, which is about half of total sales but less than it had been historically. Our latest acquisition will help to further advance market diversification.

Nonetheless, we like our position in the semi market which over the long run has exciting megatrends to drive growth as we leverage our know-how and innovative solutions. We continue to innovate by providing more automated technologies and, through responsive, solutions-oriented service, we are gaining additional traction within our existing customers while also capturing new ones.

Our diversified markets are serving us well – but it's the teams' effort to expand our reach and leverage unique solutions across more channels and markets that are enabling inroads with new customers and channel partners.

Underpinning our 5-Point Strategy is the accountability and discipline required to execute well. Our teams are consistently evaluating market position, pricing, competition, opportunities and the talent within as well as across our channel partners to drive growth.

We are encouraged with our progress and excited about our future.

With that operator, we can open the line for questions.

Question & Answer

Operator: [Operator Instructions] Our first question is from Jaeson Schmidt with Lake Street.

Jaeson Schmidt: Just want to start with the orders that shifted towards quarter end, curious if you expect to recognize those delayed orders later this year. And then regarding the orders that were reduced in size, is this a permanent reduction? Or do you think there's potential to recoup that full order later?

Nick Grant: Jaeson, so the orders that were delayed really did just shift to the right. We do see them moving more into the later part of the year based on what our customers are telling us. As for the reduction in size, that is end user demand driven, and that is for the balance of the year. In fact, we booked the reduced-size orders primarily in the second quarter and particular customers through the balance of the year. So that's going to be reflected in Q2 but was expected in Q1 and just did not materialize.

Jaeson Schmidt: Got it. That's helpful. And then it sounds like the integration with Alfamation continues to progress to plan. But just curious if there's anything that has surprised you, whether good or bad, now that you've had a little more time with the acquisition?

Nick Grant: All positive so far. I mentioned in the prepared remarks that we had a trade show, the APEX show, where they jointly showed with the Acculogic group up in Canada and had very good activity, good interactions between the two businesses and the teams. Customer calls have gone fantastic with them, Being part of a larger U.S. company gives some credibility to their pursuits of some projects. All positive from that sense. Duncan, anything from your side that you've come across.

Duncan Gilmour: All good so far. Nick alluded to revenue recognition, but that wasn't a complete surprise, just something that as we get under the hood, gave us more visibility into final determination. So, nothing surprising so far.

Jaeson Schmidt: Okay. No, that's great to hear. And then just last one for me, and I'll hop back in the queue. You noted some headwinds from Alfamation regarding gross margins. Just curious if you could quantify the impact here in Q1.

Duncan Gilmour: It was 100 basis points of impact. Literally, just a case of relatively thin revenue versus the costs that had to be brought into the stub period based upon a number of business days versus number of actual days. So, 100 basis points of impact on the margin there.

Operator: Our next question comes from the line of Ted Jackson with Northland Securities.

Ted Jackson: I wanted to start with the front-end semi market, and just simply put, it's real open-ended as some discussion or color around -- what does it mean with regards to silicon carbide? What's driving it when you talk to your customers? I mean as you mentioned in the press release, it sounded like a capacity overbuild. Am I reading that correctly?

And the view you get from your customers to when that market kind of normalizes out, just really kind of sort of at the macro level, the front-end semis, where I'd love to hear more color about and then I'll follow up with another...

Nick Grant: On the front-end semi, as you know, our induction heating solutions are used in the crystal growth, for silicon carbide and gallium nitride, as well as in epitaxy applications. We have seen the crystal growing orders remain soft for a number of quarters now as they digest the shipments that happened previously. We had been seeing relative strength holding up well was on the epitaxy side. But then in Q1, we saw epitaxy slow.

That's really more project driven for our end users. Some of the larger projects our customers expected were either delayed, canceled, or re-scoped on the number of units that they were going to need. So that really was the reduction in size that we saw. Talking with our customers, both the integrators and the end users, we think that starts picking up in the second half. They're telling us orders they're going to need to start placing for late in the year and even into 2025.

Ted Jackson: That was great color. And then on a more positive discussion, the defense business has been doing well for quite a period of time. And I wondered if you could provide a little color within that market, what are the applications that are driving it and your outlook for it?

Nick Grant: We serve that space across all 3 divisions, and some of the applications include robust testing of electronics used in missiles and missile defense systems. Our flying probe testers are testing circuit boards used in various defense systems. And so, it really is a wide variety of applications.

Also, more on the defense/aero side, components used in aircraft, some cameras used on planes as well. So, it touches a wide variety of applications. We do see those staying pretty robust for us. There are new designs on the missiles themselves or the components going into the missiles, driving higher testing needs, driving more upgrades to our products that we've served in the past. So yes, we see that will continue for quite some time.

Ted Jackson: Good. I want to hear that. And then my last question on backlog. If we take Alfamation out, your backlog was down substantially. And is that drop in backlog purely semi driven?

Duncan Gilmour: A huge portion of that is semi driven. As you can see from the order activity in semi, a low quarter revenue is still somewhat holding up. You can do the math on that and you can see backlog dropping. So, semi, certainly the bigger driver. The front-end component, as Nick highlighted, really being the driver of that sector with respect to that backlog reduction. I think the rest of the markets are holding up relatively well, but that's where we see the biggest change.

Operator: [Operator Instructions] Our next question comes from the line of Peter Wright with Intro-act.

Peter Wright: Nick, my first question is if you could share some color on kind of customers' activity around capacity expansion. Do you think some of the pushouts are more proactive or reactive? Or can you tell at this point to kind of what they're seeing there? And separate from kind of the capacity conversations on more of the innovation or tech type purchases or new customers, has there been anything to kind of highlight or note there, either accelerating or decelerating?

And then the second question I have is more from your guys' perspective as we look at kind of where we're in the cycle, -- you guys have made some acquisitions and maybe have some cost to cut there. But what is changing maybe in your investment philosophy in your own innovation in your own development cycle. Is there any cost cuts or harder hurdles to get by or are you guys full steam ahead?

Nick Grant: Peter, thanks for the questions. So relative to capacity expansions and what we're seeing, I would say most of those really have been delayed. Customers still have these projects on their road maps. They're in our funnels. And it's just a matter of timing before they pull the trigger and they're going to need our equipment for those things. So, nothing is being mothballed or canceled. It's just purely just delay on getting CapEx spending approvals.

As we relate to new customers, this is something we've been driving across the businesses since I joined, aggressively going after new customers in our markets, going after existing customers to get more share of their wallets. That continues throughout. In fact, we've got an aggressive push to elevate activities, obviously, in these slower times, to go after competitive accounts. The teams are laser-focused on finding the opportunities and getting them closed. But we will continue to add new customers every quarter. We're excited about the new customers we brought in with Alfamation in their customer base as we explore the larger portfolio of our solutions across that as well.

The last question you had was on what we are doing relative to our investments in R&D. So, innovation remains one of our core strategies, and we aren't slowing down in that area. In fact, we're pushing the teams to do more and trying to speed up development around the new products.

Linked with that, we're pretty excited about the number of customers that are qualifying the SCAiLX new vision camera that we released last year. It takes time to design in the new cameras. So, we've got a pipeline of opportunities there that should start bearing fruit later in the year. Likewise, the new bench-top ThermoStream that we launched at our ITS business up in Mansfield, Massachusetts; good excitement there. It was launched at a trade show out in California, and we had dozens of leads that came back specifically around that product. So, we're chasing those down. Yes, innovation is something we won't throttle back. We believe it's going to create demand going forward for us.

Peter Wright: If I could ask one detailed question, maybe more of a survey-ish type question. Duncan, if you look at pricing and cost trends, looking at where we are in the ebbs and flows of the inflation cycle, is anything getting notably more difficult or notably easier in managing margin?

Duncan Gilmour: It's all relative. If you compare today to one-and-a-half years or two years ago, when things were certainly a lot more volatile from a supply chain, inflationary perspective, then the amplitude of that is certainly less. But the teams are constantly looking at it. We're constantly looking at our price versus cost equation and ensuring the teams are pricing appropriately and managing costs, managing supply chain costs, et cetera, et cetera. So, the amplitude is more manageable, but it's an ongoing battle, and it should be.

Peter Wright: One last one. Any update on the Malaysia facility that is noteworthy there?

Nick Grant: We're moving full steam ahead there. They have been a little delayed getting the final permits into that site, but we have proceeded with some of the build-out, working with the architects, and getting everything ordered. We expect to have that final permit any day, and then we'll pull the trigger. We have started hiring. We got a handful of really talented individuals that we've hired that will be starting in the next few weeks.

So excited about the progress on that site and the team's commitment to embrace it and help further our position in Southeast Asia.

Operator: Thank you. Nick, there are no further questions in the queue.

Nick Grant: We appreciate your joining us today and welcome the opportunity to answer any further questions you may have.

On **Slide 12** you can find the details regarding this call and a list of upcoming events that we will be participating in. I hope to have the chance to meet some of you at a conference.

Thanks for participating and have a nice day.

Operator: Thank you. This will conclude today's conference. You may disconnect your lines at this time and thank you for your participation.

Note: This transcript has been edited slightly to make it more readable. It is not intended to be a verbatim recreation of the inTEST Corporation (INTT) financial results teleconference and webcast that occurred on the date noted. Please refer to the webcast version of the call, which is available on the Company's website (www.intest.com), as well as to information available on the SEC's website (www.sec.gov) before making an investment decision. Please also refer to the opening remarks of this call for INTT's announcement concerning forward-looking statements that were made during this call.