



inTEST Corporation (INTT)

Initiate Coverage Of inTEST Corporation With A \$10 Price Target

	2015	2016	2017E	2018E
Mar.	\$0.05	\$0.01	\$0.21A	\$0.14
June	0.11	0.05	0.16A	0.25
Sep.	0.04	0.11	0.19	0.25
Dec.	<u>0.01</u>	<u>0.10</u>	<u>0.18</u>	<u>0.16</u>
EPS	\$0.20	\$0.28	\$0.74	\$0.81
P/E			12.1x	16.1x

Note: NR = Not Rated. Risk Ratings: H = Highly risky; M = Moderately risky. 2015-2016 each exclude \$0.02 and 2017-2018 include \$0.14 and \$0.23, respectively, of amortization of acquired intangible assets. .NC = Not covered by Sidoti & Company, LLC.

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017E	2018E
Rev.(Mil.)	\$23.5	\$46.2	\$47.3	\$43.6	\$39.4	\$41.7	\$38.9	\$40.3	\$65.4	\$74.1
GAAP EPS	\$(0.49)	\$0.72	\$0.96	\$0.21	\$0.30	\$0.33	\$0.18	\$0.26	\$0.60	\$0.58

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.

inTest is well positioned to capitalize on several secular trends. These trends include: technological advancements in mobile communications, automotive electronics, and consumer and automotive sensors; increasing mission critical requirements in the defense and aerospace sectors; and the emergence of the Internet of Things. We think these underlying trends will drive an increase in the number and complexity of integrated circuits (IC); this, in turn, will fuel demand for inTest's high end automatic test equipment and thermal, electrical and mechanical testing systems, in our view. Beside IC testing, inTest has a solid stake in thermal testing in telecommunications, industrial and a host of end markets.

Recent cyclical market strength and the company's restructuring resulted in a significant earnings rebound starting in 3Q:16. Through 2Q:17, trailing 12 month EPS of \$0.58 compared with \$0.18 in the prior 12 months. A rebound in the ATE market, reflecting pent up demand created in 2015, was one factor for the outperformance. The favorable secular trends, especially thermal testing for optical transceivers, as well as the successful restructuring of the electrical and mechanical business, were also key contributors. In late 2015, inTest consolidated the ATE electrical and mechanical units into one segment and initiated several cost reduction and margin enhancement plans; this structurally improved the margin profile of the business, a benefit that we estimate will continue.

The Ambrell acquisition diversifies the business mix, and will enhance revenue and earnings growth, in our opinion. After the acquisition of Ambrell (closed in May 2017; about \$20 million of annual revenue), the non-ATE business is half of revenue. Strategically, Ambrell's induction heating capability complements inTest's expertise in thermal testing and expands inTest's manufacturing capability. One key opportunity is in the axle and wheel heat fitting application in the electrical automotive market. Also, Ambrell added medical, consumer and food & beverage end markets to inTest's end-market base. Based on the business pipeline, Ambrell is a double-digit revenue grower, as we see it, and will potentially post annual EBITDA of \$3-\$5 million in the next few years, from slightly profitable in 2017.

We project a significant surge in revenue and EPS growth in 2017, and then a more typical 9% annual EPS advance in 2018. We think the bookings, revenue and margin strength will likely continue for the rest of this year. Thus, for 2017, we project revenue will grow 62% to \$65 million, with Ambrell adding \$11.8 million in sales and contributing 29 percentage points of growth. We project the operating margin will expand 420 basis points to 14.5%, and EPS of \$0.74, almost three times the \$0.28 posted in 2016. For 2018, we

NR

Price Target: \$10

Price: \$7.60

Risk Rating: M

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Key Statistics

Analysts Covering	1
Market Cap (Mil)	\$80
Enterprise Value	\$71
52-Week Range (NYSE)	10-4
5-Year EPS CAGR	12%
Avg. Daily Trading Volume	94,000
Shares Out (Mil)	10.335
Float Shares (Mil)	7.818
Insider Ownership	18%
Institutional Holdings	44%
Annualized Dividend	Nil
Dividend Yield	N/A
FCF Per Share (2018E)	\$0.70
FCF Yield (2018E)	9.5%
Net Cash Per Share (2018E)	\$1.79
Price to Book Value	1.9x
Return on Equity (2018E)	17.7%
Total Debt to Capital	Nil
Interest Coverage Ratio	N/A
Short Interest %	0.4%
Short Interest Days To Cover	0.4x
Russell 2000	1,414
Russell 2000 - Last 12 Months	14.0%
INTT - Last 12 Months	103.2%



Source: FactSet Prices

forecast revenue will increase 13% to \$74 million, with a full year of Ambrell contributing \$22.5 million. Excluding Ambrell, we project a revenue decline of 3% since we expect some “cooling off” in the semiconductor cycle and the communications end market from the fervid pace in 2017. Thus, we forecast the gross margin will narrow 300 basis points to 47.5%, reflecting a full year of Ambrell in the business mix, and a net income decline of 2% (largely a result of an increase in amortization of acquired intangibles from the Ambrell acquisition). Excluding amortization of acquired intangibles, we forecast EPS of \$0.81, up 9% from our 2017 forecast of \$0.74.

The balance sheet is solid and the company generates ample free cash flow. At the close of 2Q:17, inTest had \$8 million in cash and no debt. In 2Q:17, the company paid \$24 million in cash for the Ambrell acquisition. We project cash flow from operations of \$7.4 million in 2017, compared with management guidance of \$4.5-\$7.5 million. inTest and Ambrell are not capital intensive businesses. We project capex of \$496,000 in 2017 and \$600,000 in 2018, leading to free cash flow of \$6.9 million (\$0.67 per share) and \$7.3 million (\$0.70), respectively. By yearend 2018, we model that the company will remain debt free and hold cash of \$18.6 million (\$1.79 per share).

We initiate coverage of INTT with a \$10 price target. INTT shares almost doubled in the past 12 months, driven by markedly improved results starting in 3Q:16, in our opinion. 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 helps reduce exposure to the cyclical semiconductor end market. We think the company is currently in an upcycle, that cooled off from the near term peak, but still respectable results will likely extend into 2018. We apply a 12x multiple (in line with our 5-year projected EPS CAGR) to our 2018 EPS estimate of \$0.81, to arrive at \$10 price target. 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 the \$0.73 per share in cash at the close of 2Q:17 to arrive at a total value of about \$10. We do not use projected cash because inTest will have to make earn-out payments in the future should Ambrell meet certain EBITDA milestones.

Company Overview

inTest Corporation serves the automatic test equipment market; it was founded in 1981 in Cherry Hill, New Jersey and completed an initial public offering in 1997 with the sale of 2.28 million shares at \$7.50 apiece. In the late 1990s, the key capability of the company was grounded in test design in the semiconductor industry, developing mechanical and test interface of systems. In the early 2000s, inTest, through a handful of acquisitions, added thermal testing, although the company still largely targeted the semiconductor market. Between 2008 and 2012, through the acquisitions of Sigma Systems and Thermonics, inTest significantly expanded its testing business into several non-semiconductor end industries. In May 2017, the company made yet another move to further diversify its exposure away from semiconductor testing by acquiring Ambrell Corp. Ambrell develops thermal systems for manufacturing applications across a diverse set of end markets. Today, with Ambrell, automatic test equipment (ATE) represents half of annual revenue and non-ATE the balance.

inTest reports revenue under two segments: 1) electrical and mechanical segment (EMS; 40% of 2016 revenue) which serves the ATE market; and 2) the thermal segment (60%) serves both the ATE and non-semiconductor markets.

CEO Robert Matthiessen joined the company in the 1980s. James Pelrin, current chief operating officer, joined inTest in 2001 and was promoted to the COO position from executive vice president at the beginning of 2016. Mr. Pelrin, who ran the day-to-day operations for about several months, is likely to succeed Mr. Mattiessen when he retires, in our opinion. Insider owns about 18%

of the shares. The heir of the recently deceased co-founder owns 14%, while inTest’s management owns 4%.

The Role Of inTest In the ATE Market

As the name suggests, automatic test equipment involves systems that automate the testing of integrated circuits. inTest participates in the mechanical and electronic test interface solutions, as well as thermal testing applications, areas which are about \$100 million in size.

In an automated test system, the most important part is the test head which serves as the “brain engine” of the machine that does the actual testing of the IC and wafers. Teradyne (NASDAQ: TER, NC) and Advantest (Japan-based) are the key vendors of test heads. Cohu (NASDAQ: COHU, NC) and FormFactor (NASDAQ: FORM, BUY) sell handlers, probe cards and stations; these are largely responsible for the handling of the IC and wafers. inTest is responsible for: 1) the movement of the test heads; it provides high performance manipulators that hold the test heads in position; 2) the mechanical interface of the test heads and probe cards; it provides advanced docking systems; 3) tester interface, which provides electrical connections between test heads and wafer probers and IC handlers; and 4) thermal management to ensure wafers and IC work properly under specific temperature requirements.

IC makers often source components from different vendors to assemble a complete test system for specific testing requirements. inTest is entrenched in this process as its interface products ensure all the parts and pieces work seamlessly, regardless of the vendor chosen by the IC maker. inTest acts as the “go to” problem solver when a test system is not functioning properly on the test floor. inTest sells directly to foundries, integrated device

manufacturers and outsourced semiconductor assembly and test (OSAT) companies. The company also sells to tester markets in OEM arrangements; this was 6% of revenue in 2016.

The ATE Growth Drivers

IC unit growth and the increasing complexity of IC are the two key drivers for growth in the ATE market. IC unit growth was high in the past decade or so, given the proliferation of Internet and mobility, and industrial automation. However, improvement in testing equipment efficiency was a headwind to that growth, resulting in overall GDP-type of growth for the ATE market. That said, we think demand for IC in the next few years will be driven by technological advancement in automotive electronics and sensors, Internet of Things, and further proliferation of consumer mobile communications devices. In addition, the shrinking of the size of IC and the increasing complexity of IC designs escalated the difficulty of maximizing test yields and the testing time, or resulted in completely different test requirements that triggered the retooling of test floors; both are driving demand for testers.

The cyclical and lumpiness of the ATE business.

The semiconductor market is highly cyclical, despite the secular growth in unit shipments. The equipment or testing market that serves the chip market is likely to grow over the long term in step with IC unit sales, but it is notoriously lumpy in nature. For example, industrywide ATE revenue in the past few years experienced a “tick tock” pattern in conjunction with Apple’s (NASDAQ: AAPL, NC) new iPhone introductions. Recently, however, there was a deviation from this pattern as the complexity of IC caused growth even in a down year. Intra year, the first and fourth quarters are seasonally the weakest quarters, with the second and third the strongest, driven by mobile phone OEM product introductions, as well as seasonal holiday activity.

Specifically for inTest, the EMS segment (sales of manipulators, docking systems and test interfaces), is driven by the IC production tempo of the semiconductor companies and has a similar sales pattern as major test head vendors such as Teradyne. On the other hand, the thermal systems segment is tied to research and development in test labs, and has less correlation with IC production. Historically, there was a six month lag between the two segments. In terms of revenue visibility, despite some customization of thermal systems required by non-ATE customers, lead time on average is fairly short. About two thirds of quarterly sales are “turn business” that is booked, shipped and recognized in the quarter; only one third is generated from backlog. inTest generally has decent revenue visibility three months out and some visibility six months out. At the close of 2Q:17, backlog (ex-Ambrell) was \$6.6 million, up from \$3.5 million a year earlier.

Recent Restructuring Of The EMS segment

The EMS segment before 2016 was operated as two business units: electrical and mechanical. EMS, while

entrenched in the customer base, is incrementally becoming a commodity business as powerful players in the ATE ecosystem that make test heads become more integrated. This started during the Great Recession when Teradyne was concerned that certain mechanical and electronic interface vendors would fail to survive; TER decided to acquire some vendors to ensure product availability. As an integrated player with the advantage of scale, Teradyne continues to commoditize the product. In reaction, inTest decided to walk away from the low end of the market. So today, inTest tests mostly systems on chips (SOCs), digital signal processors (DSP) and complex packages types, and is not involved in the lower margin memory market.

The resulting share loss is most noticeable in docking systems where inTest controls about 20% of the market, with Teradyne and Advantest in aggregate owning half the market. inTest has about 10% of the manipulators market, with competitors Reid Ashman and Esmo controlling 76%; but inTest still has 40% of the electrical interface market.

The operating margins for inTest’s electrical and mechanical interface businesses were in the mid-teens about a decade ago, but progressively deteriorated to a loss in 2015, driven by the competitive environment and the flurry of M&A activity in the semiconductor customer base. In late 2015, inTest decided to restructure and overhaul the business. Operations were consolidated into the EMS segment. Several cost reduction and margin enhancement initiatives were undertaken, including the redesign of certain products, changes in procurement and price increases for certain manipulator products. In addition, the machine shop operation was restructured to become a profit center, as opposed to a cost center. In 2016, EMS posted an operating profit of close to \$1 million, (from a \$1 million operating loss in 2015) and generated a 6% operating margin. The incremental margin for every additional sales dollar increased from 25% to 40%.

Thermal Business Is The Crown Jewel

inTest’s thermal systems are used in test labs to heat up and cool down (with high precision and speed) the tested objects. The ultimate test goal is to ensure proper functioning of test objects under extreme temperatures. Some of these systems can control temperature to a precision of within plus or minus 0.1 degree Celsius, in a range of -100 degrees Celsius to as high as +300 degrees Celsius. About 10% of the business is service parts and there is an engine component of the system that needs to be replaced every 10 years or so.

inTest sells standard and custom thermal systems to the ATE market that are used in test labs for research and development, and owns 70% of the \$18-\$20 million market. The company also sells mostly customized products to the non-ATE market. In our view, thermal is a high quality business; inTest competes on quality and speed to shipment. The company’s systems, in general, are about 1.5-2.5x more expensive compared to off-the-shelf systems. Customized systems can be shipped in

10-12 weeks, faster than other vendors are capable of. The operating margin of this business is in the high teens.

Testing In The Non-ATE Market

While inTest dominates the ATE thermal market, the opportunity outside this arena is vast, suggesting a good growth runway for the company. inTest pegs the market at \$120 million and has about a 10% share. Intest serves the telecommunications, defense/aerospace, automotive and industrial end markets, for testing in space research, communications satellite, missile guidance, and network infrastructure. As explained earlier, many sales involve custom-made products that inTest sells one or two at a time. Such customized products have higher price points than standard thermal ATE systems. Our understanding is that the operating margins for the ATE and non-ATE thermal businesses are similar, despite the difference in gross margin.

There are many competitors in the thermal business, including FTS Systems, Blue M and E-Spec Industries (all privately-held). In any given year, the customer and sales turnover rate is more than 30% because of limited repeatable business. inTest's strategy is to excel at developing customized systems and gain market share from other vendors through targeted sales and marketing efforts, as well as expanding the business pipeline and signing new customers. Management thinks it can grow market share to 15% over time, from the current 10%, while the market itself should grow at a GDP rate.

We think the non-ATE thermal business offers inTest diversification from the traditional semiconductor-driven business. We, however, highlight that the non-ATE thermal business is lumpy in nature and often does not correlate with the underlying trend of the end markets, in the short term. However, a specific end market that truly stood out of late is telecommunications; in particular, the optical transceiver market experienced a surge in transmission capacity, especially in Asia, in the past 18 months, that led to a buying spree of testing equipment for the test floor. In 1H:17, the telecommunications end market generated \$4.9 million, or 16% of inTest sales. We think the prospects for this market look solid for the next few years, but buying patterns are likely to be erratic in the short term. Another interesting end market is defense which was a consistent buyer despite the weak defense budget in the past decade, as was the satellite market.

Ambrell Offers Diversification And Growth

In early May, inTest closed on the acquisition of Ambrell, a manufacturer of precision induction heating products. Induction heating is used for conducting fast, efficient, repeatable non-contact heating of metals and other electrically conductive materials to transform raw materials into finished parts and product. Ambrell participates mainly in the low output side of the spectrum, from 1 kilowatt to 500 kilowatts. The heating speed is high: from room temperature to 3,000 degrees in 13 to 14 seconds. Induction heat does not require an open flame source. The systems are used on the manufacturing floor

to help the entire manufacturing process. For example, in the electric car industry, the leading vendor uses induction heating to heat-fit the four axles to the motor. In this case, by not using more conventional adjoining methods such as welding, induction heating promotes perfect balance. Another example is in consumer products where manufacturers use induction heating to connect the straw to the lid of a sippy cup for toddler tableware, with a clean finish at the joint.

inTest pegs the annual 500kw and below induction heating market at \$400 million, serving primary end markets such as automotive, aerospace, machinery, wire and fasteners, medical, semiconductor, food and beverage and packaging. Ambrell has more 12,000 installed systems in about 50 countries, generates \$20-\$25 million in annual sales and is a pure play in induction heating. The market is fragmented, as we see it; there are four other companies that each has a \$50 million annual revenue base, four to five companies that are about the same size as Ambrell, and a long list of small companies that make up the bottom of the market. Ambrell competes on engineering capability and an ability to provide customized solutions. We think the Ambrell acquisition made strategic sense. First and foremost, it is a transformative deal that immediately added \$20-\$25 million to the \$40-\$50 million legacy inTest revenue base, significantly reducing the company's exposure to the ATE market from 75% to half. Ambrell complements inTest's core thermal business, through broadening the company's presence and capability beyond testing, into manufacturing. Ambrell also brings synergies in software development, engineering and manufacturing to the thermal business.

From what we can see, Ambrell was a well-run company. Private equity firm Graycliff Partners acquired Ambrell in 2014 and brought in new management that reduced operating losses in the past few years. The initial purchase price paid by inTest was \$22 million; with earn-outs, if and when Ambrell achieves certain EBITDA milestones, the total purchase price could be as high as \$40 million. Ambrell has an internal target to generate \$5 million in EBITDA in a few years. If that is achieved, the \$40 total purchase price would represent 8x EBITDA. inTest expects the deal to be accretive in 3Q:17. Management highlighted a well-known electric car company that turned to inTest for the retooling of a production plan as a key opportunity. inTest also likes the growth prospects in the medical and food industries. Ambrell's gross margin is in the low 40s, lower than inTest's high 40% to low 50% range in the latest quarters. inTest will run Ambrell separately from the core business; so this is not a cost synergy play. However, we think there is an opportunity to consolidate sourcing and production of certain parts to create some cost synergies in the future, but the timing is uncertain.

Recent Results

Revenue declined significantly during the Great Recession (2007-2009) as demand for ATE dried up. In 2010-2011, demand rebounded from the cyclical trough as the economy snapped back. In 2012, the bookings

and revenue growth trends reversed, and declined further in 2013. Revenue received a temporary boost in 2014, followed by a tough year in 2015 when M&A activity in the semiconductor industry caused major delays in equipment purchase decisions.

Bookings were weak in 1Q:16, but the trend improved through the rest of 2016 on pent up demand and demand in the telecommunications optical transceiver market, especially in China. In 2016, revenue grew 4%, but bookings grew 22% and the yearend backlog was \$7.4 million. EPS expanded 40% to \$0.28 as the company leveraged the topline growth and reaped the benefits of the EMS restructuring initiatives. In the past few years, demand for ATE was driven primarily by unit growth in the mobility end market. Revenue fluctuations coincided with the pace of iPhone introductions. After a strong 2016, if the “tick tock” pattern prevails, 2017 would likely be a down year. However, according to many industry experts, strength in 2016 will continue into this year; apparently the complexity of chipset designs has become a major driver of testing equipment demand, as opposed to unit growth.

In 1Q:17, inTest reported \$14 million in revenue, \$15 million in bookings, and \$0.21 in EPS, the best quarterly results since 2012. Revenue strength was broad based, with both the EMS and ATE thermal businesses fueled by the robust semiconductor market, and the non-ATE thermal business driven by the optical transceiver market. In 2Q:17, revenue of \$15.9 million included \$2 million in Ambrell revenue (about five weeks) and \$2.3 million of bookings. Excluding Ambrell, revenue declined 2% and bookings ebbed 19% sequentially as the ATE business cooled off from the peak in 1Q:17. EPS (excluding amortization of acquired intangibles) were \$0.16, down from \$0.21 in 1Q:17, but up from \$0.05 in 2Q:16. Excluding acquisition-related costs (about \$300,000 and \$850,000 in 1Q:17 and 2Q:17, respectively), EPS would have declined about 8%, sequentially, to \$0.19 in 2Q:17.

Earnings Outlook

For 3Q:17, management guides to revenue of \$17.5-\$18.5 million and EPS (excluding about \$0.06 of amortization of acquired intangible) in the \$0.18-\$0.22 range. With a full quarter of Ambrell, we project non-ATE and ATE revenue will be about equal and forecast total sales of \$18 million. We project a 48.0% gross margin and, assuming minimal acquisition-related costs, we forecast EPS of \$0.19, within the guidance range. For 2017, we project revenue growth of 62% to \$65.3 million, with Ambrell contributing 29 percentage points of growth. We project ATE sales (EMS and thermal) will increase 40% to \$39 million, given the strong bookings since 2Q:16. We project non-ATE sales will grow 19% to \$14.5 million, on the strength of the broadband and optical transceiver businesses, and Ambrell will add \$11.8 million. For the ATE segment, we estimate EMS revenue will grow 48% to \$24 million and thermal revenue will rise 29% to \$15 million. We project the gross margin will narrow 10% basis points to 50.5%, but the operating margin will expand 420 basis points to 14.5%, as expenses are spread over a wider revenue base.

Assuming a 36% tax rate, we forecast EPS of \$0.74, almost three times the \$0.28 posted in 2016.

For 2018, we forecast revenue growth of 13%, with a full year of Ambrell (as opposed to about half a year in 2017) adding \$22.5 million. We project revenue (excluding Ambrell) will decline 3% from the solid 2017 results that benefited from the super semiconductor cycle and the communications end market. We forecast gross margin contraction of 300 basis points to 47.5% with a full year of Ambrell in the mix. We project a modest 2% annual net income decline (largely the result of an increase in amortization of acquired intangibles from the Ambrell acquisition). Excluding amortization of acquired intangibles, we forecast EPS of \$0.81, or up 9% from 2017. We estimate earnings growth mainly will come from organic growth of the Ambrell business.

Balance Sheet and Cash Flow

At the close of 2Q:17, inTest had \$8 million in cash and no debt. In 2Q:17, the company paid \$24 million in cash for the Ambrell acquisition. We project cash flow from operations of \$7.4 million in 2017, compared with management guidance of \$4.5-\$7.5 million. inTest and Ambrell are not capital intensive businesses. We project capex of \$496,000 in 2017 and \$600,000 in 2018, leading to free cash flow of \$6.9 million (\$0.67 per share) and \$7.9 million (\$0.70), respectively. By yearend 2018, we model that the company will remain debt free and hold cash of \$18.6 million (\$1.79 per share).

Risks

inTest's business is cyclical, with limited revenue visibility. Customer concentration is high; the top 10 accounts represented 50% of revenue in 2016. Also, although Ambrell largely will be operated separately, there is still some integration risk, in our view.

Valuation

In the past year, INTT shares charted a fairly steady upward course, climbing to about \$8.70 in early August 2017, before pulling back in recent weeks. When valuing INTT shares, we consider the company's strength in the thermal business, recent restructuring 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 the peak, but will likely extend into 2018, in our opinion. We apply a 12x multiple (in line with our 5-year EPS CAGR projection) to our 2018 EPS estimate of \$0.81, to arrive at a \$10 in price target.

Also, we use a sum-of-the-parts valuation as an alternative method in valuing 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 two values, we add the \$0.73 per share in cash at the close of 2Q:17 to arrive at a total value of about \$10.

INTEST CORPORATION

inTEST Corporation

Table 1 Income Statement

(\$ in thousands, except per share amounts)

	2015					2016					2017E					2018E
	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	\$ 18,000	\$ 17,300	\$ 65,368	\$ 16,700	\$ 20,000	\$ 20,000	\$ 17,400	\$ 74,100
<i>Growth (year-over-year)</i>	-7.0%	-14.9%	-9.3%	17.7%	29.4%	3.5%	63.5%	51.5%	66.2%	68.4%	62.4%	17.8%	25.9%	11.1%	0.6%	13.4%
Cost of revenue	20,191	4,607	5,156	5,255	4,867	19,885	6,452	7,467	9,360	9,083	32,362	8,851	10,400	10,400	9,222	38,873
Gross profit	18,698	4,067	5,329	5,577	5,405	20,378	7,728	8,421	8,640	8,218	33,007	7,849	9,600	9,600	8,178	35,227
Selling expense	5,797	1,335	1,471	1,394	1,367	5,567	1,668	1,871	2,200	2,200	7,939	2,200	2,200	2,200	2,200	8,800
Engineering and product development expense	3,935	991	982	905	782	3,660	935	982	1,385	1,385	4,687	1,385	1,385	1,385	1,385	5,540
G&A expense	6,404	1,645	2,145	1,574	1,641	7,005	1,994	3,286	2,900	2,700	10,880	2,900	2,900	2,900	2,900	11,600
Operating income	2,562	96	731	1,704	1,615	4,146	3,131	2,282	2,155	1,933	9,501	1,364	3,115	3,115	1,693	9,287
<i>Growth (year-over-year)</i>	-47.9%	-85.9%	-55.4%	NM	NM	61.8%	NM	212.2%	26.5%	19.7%	129.1%	-56.4%	36.5%	44.5%	-12.4%	-2.2%
Other income (expenses)	21	28	18	17	(2)	61	41	54	0	0	95	0	0	0	0	0
Pretax income	2,583	124	749	1,721	1,613	4,207	3,172	2,336	2,155	1,933	9,596	1,364	3,115	3,115	1,693	9,287
Income tax expense	722	43	263	631	612	1,549	1,094	891	754	676	3,416	477	1,090	1,090	593	3,250
Net income	1,861	81	486	1,090	1,001	2,658	2,078	1,445	1,401	1,256	6,180	887	2,025	2,025	1,100	6,037
<i>Growth (year-over-year)</i>	-45.9%	-81.5%	-55.0%	NM	NM	42.8%	NM	NM	28.5%	25.5%	132.5%	-57.3%	40.1%	44.5%	-12.4%	-2.3%
EPS - basic	\$ 0.18	\$ 0.01	\$ 0.05	\$ 0.11	\$ 0.10	\$ 0.26	\$ 0.20	\$ 0.14	\$ 0.14	\$ 0.12	\$ 0.60	\$ 0.09	\$ 0.20	\$ 0.20	\$ 0.11	\$ 0.59
EPS- diluted	\$ 0.18	\$ 0.01	\$ 0.05	\$ 0.11	\$ 0.10	\$ 0.26	\$ 0.20	\$ 0.14	\$ 0.14	\$ 0.12	\$ 0.60	\$ 0.09	\$ 0.19	\$ 0.19	\$ 0.11	\$ 0.58
EPS- diluted non-GAAP	\$ 0.20	\$ 0.01	\$ 0.05	\$ 0.11	\$ 0.10	\$ 0.28	\$ 0.21	\$ 0.16	\$ 0.19	\$ 0.18	\$ 0.74	\$ 0.14	\$ 0.25	\$ 0.25	\$ 0.16	\$ 0.81
<i>Growth (year-over-year)</i>	-41.4%	-72.3%	-52.1%	NM	NM	36.6%	NM	NM	73.9%	74.2%	NM	-30.9%	53.8%	30.3%	-9.0%	9.0%
Weighted average shares -basic	10,473	10,390	10,296	10,295	10,274	10,314	10,265	10,277	10,300	10,300	10,300	10,300	10,300	10,300	10,300	10,300
Weighted average shares- dilute	10,494	10,404	10,311	10,319	10,297	10,333	10,295	10,335	10,353	10,371	10,335	10,389	10,407	10,425	10,443	10,410
EBITDA	3,300	273	882	1,900	1,800	4,800	3,300	2,700	3,078	2,856	11,934	2,287	4,038	4,038	2,616	12,979
Margin analysis:																
Gross margin	48.1%	46.9%	50.8%	51.5%	52.6%	50.6%	54.5%	53.0%	48.0%	47.5%	50.5%	47.0%	48.0%	48.0%	47.0%	47.5%
selling expense as a % of revenue	14.9%	15.4%	14.0%	12.9%	13.3%	13.8%	11.8%	11.8%	12.2%	12.7%	12.1%	13.2%	11.0%	11.0%	12.6%	11.9%
R&D expense as a % of revenue	10.1%	11.4%	9.4%	8.4%	7.6%	9.1%	6.6%	6.2%	7.7%	8.0%	7.2%	8.3%	6.9%	6.9%	8.0%	7.5%
G&A expense as a % of revenue	16.5%	19.0%	20.5%	14.5%	16.0%	17.4%	14.1%	20.7%	16.1%	15.6%	16.6%	17.4%	14.5%	14.5%	16.7%	15.7%
Operating margin	6.6%	1.1%	7.0%	15.7%	15.7%	10.3%	22.1%	14.4%	12.0%	11.2%	14.5%	8.2%	15.6%	15.6%	9.7%	12.5%
EBITDA margin	8.5%	3.1%	8.4%	17.5%	17.5%	11.9%	23.3%	17.0%	17.1%	16.5%	18.3%	13.7%	20.2%	20.2%	15.0%	17.5%
Tax rate	28.0%	34.7%	35.1%	36.7%	37.9%	36.8%	34.5%	38.1%	35.0%	35.0%	35.6%	35.0%	35.0%	35.0%	35.0%	35.0%

non-GAAP numbers exclude amortization of acquired intangibles

Sources: Company reports and Sidoti estimates

INTEST CORPORATION

inTEST Corporation

Table 2 Cash Flow Statement

(\$ in thousands, except per share amounts)

	2015		2016				2017E					2018E
			MarA	JunA	Sep	Dec	Mar	Jun	Sep	Dec		
Cash flows from operating activities												
Net earnings	\$ 1,861	\$ 2,658	\$ 2,078	\$ 1,445	\$ 1,401	\$ 1,256	\$ 6,180	\$ 887	\$ 2,025	\$ 2,025	\$ 1,100	\$ 6,037
Depreciation and amortization	754	599	150	373	759	759	2,041	759	759	759	759	3,036
Provision for excess and obsolete inventory	342	226	47	43	0	0	90	0	0	0	0	0
Foreign exchange loss	33	16	-12	-17	0	0	-29	0	0	0	0	0
Amortization of deferred compensation related to stock-based awards	119	269	88	98	98	98	382	98	98	98	98	392
Loss on sale of property and equipment	15	0	0	0	0	0	0	0	0	0	0	0
Proceeds from sale of demonstration equipment, net of gain	214	129	31	1	0	0	32	0	0	0	0	0
Deferred income tax expenses	168	135	-6	65	0	0	59	0	0	0	0	0
Trade accounts receivable	570	-1,009	-4,423	1,539	102	81	-2,701	225	-3,593	1,973	565	-831
Inventory	-113	-384	-291	-406	632	-648	-713	1,602	-3,194	1,620	-64	-36
Prepaid expenses and other current assets	-174	295	-31	-53	-91	149	-26	137	-366	0	226	-3
Restricted certificates of deposit	0	175	0	0	0	0	0	0	0	0	0	0
Other assets	-15	178	-5	2	0	0	-3	0	0	0	0	0
Accounts payable	-324	459	465	-430	-748	187	-525	325	396	-908	259	72
Accrued wages and benefits	-36	126	-400	266	426	111	403	-960	545	305	195	84
Accrued rent	42	-85	-28	-7	0	0	-35	0	0	0	0	0
Accrued professional fees	-25	57	-11	24	0	0	13	0	0	0	0	0
Accrued sales commissions	-31	-10	148	-90	135	-123	70	112	-44	55	-123	0
Customer deposits and deferred revenue	0	0	0	-19	113	-35	59	-30	165	0	-130	5
Domestic and foreign income taxes payable	4	549	1,050	-726	0	0	324	0	0	0	0	0
Contingent and consideration liability	0	0	0	2,302	-313	-312	1,677	-312	0	-314	-263	-889
Other current liabilities	94	-95	150	-32	0	0	118	0	0	0	0	0
Net cash provided by operating activities	3,498	4,288	-1,000	4,378	2,515	1,523	7,416	2,842	-3,210	5,612	2,622	7,867
Cash flows from investing and financing activities												
Acquisition of business, net of cash acquired	0	0	0	-24,264	0	0	-24,264	0	0	0	0	0
Purchase of property and equipment	-599	-339	-114	-82	-150	-150	-496	-150	-150	-150	-150	-600
Repurchases of common stock	-155	-978	-62	0	0	0	-62					0
Net cash used in investing and financing activities	-754	-1,317	-176	-24,346	-150	-150	-24,822	-150	-150	-150	-150	-600
Effects of exchange rates on cash	-160	-70	20	109	0	0	129	0	0	0	0	0
Net cash provided by all activities	2,584	2,901	-1,156	-19,859	2,365	1,373	-17,277	2,692	-3,360	5,462	2,472	7,267
Cash and cash equivalents at the beginning of period	23,126	25,710	28,611	27,455	7,596	9,961	28,611	11,334	14,026	10,666	16,128	11,334
Cash and cash equivalents at the end of period	25,710	28,611	27,455	7,596	9,961	11,334	11,334	14,026	10,666	16,128	18,600	18,600
Free cash flow	2,899	3,949	-1,114	4,296	2,365	1,373	6,920	2,692	-3,360	5,462	2,472	7,267
Free cash flow per share	\$ 0.28	\$ 0.38	\$ (0.11)	\$ 0.42	\$ 0.23	\$ 0.13	\$ 0.67	\$ 0.26	\$ (0.32)	\$ 0.53	\$ 0.24	\$ 0.70

Sources: Company reports and Sidoti estimates

INTEST CORPORATION

inTEST Corporation
Table 3 Balance Sheet
(\$ in thousands, except per share amounts)

	2015	2016	MarA	JunA	Sep	2017E	Mar	Jun	Sep	2018E
Assets:										
Cash and cash equivalents	\$ 25,710	\$ 28,611	\$ 27,455	\$ 7,596	\$ 9,961	\$ 11,334	\$ 14,026	\$ 10,666	\$ 16,128	\$ 18,600
Trade accounts receivables	4,395	5,377	9,817	11,938	11,836	11,755	11,530	15,123	13,151	12,585
Inventory	3,520	3,676	3,921	6,212	5,580	6,228	4,626	7,820	6,200	6,264
Prepaid expense and other current assets	639	342	374	629	720	571	434	800	800	574
Property and equipment:										
Machinery and equipment	4,377	4,383	4,418	5,004	5,154	5,304	5,454	5,604	5,754	5,904
Leasehold improvements	603	603	604	711	711	711	711	711	711	711
Gross property and equipment	4,980	4,986	5,022	5,715	5,865	6,015	6,165	6,315	6,465	6,615
Less: accumulated depreciation	(3,868)	(4,042)	(4,088)	(4,190)	(4,349)	(4,508)	(4,667)	(4,826)	(4,985)	(5,144)
Net property and equipment	1,112	944	934	1,525	1,516	1,507	1,498	1,489	1,480	1,471
Deferred tax assets	1,245	1,110	1,116	0	0	0	0	0	0	0
Goodwill	1,706	1,706	1,706	18,526	18,526	18,526	18,526	18,526	18,526	18,526
Intangible assets, net	1,104	875	822	10,072	9,472	8,872	8,272	7,672	7,072	6,472
Restricted certificates of deposit	350	175	175	175	175	175	175	175	175	175
Other assets	203	28	33	31	31	31	31	31	31	31
Total assets	39,984	42,844	46,353	56,704	57,816	58,998	59,118	62,302	63,563	64,699
Liabilities:										
Accounts payable	909	1,368	1,833	2,823	2,075	2,263	2,588	2,983	2,075	2,335
Accrued wages and benefits	1,466	1,588	1,191	2,103	2,529	2,640	1,680	2,224	2,529	2,724
Accrued rent	657	572	544	537	537	537	537	537	537	537
Accrued professional fees	363	419	408	514	514	514	514	514	514	514
Accrued sales commissions	297	287	435	450	585	462	574	530	585	462
Customer deposits and deferred revenue	0	0	0	787	900	865	835	1,000	1,000	870
Domestic and foreign income taxes payable	26	575	1,625	939	939	939	939	939	939	939
Current portion of contingent consideration and liability	0	0	0	1,051	1,051	1,051	1,051	1,051	1,051	788
Other current liabilities	341	247	397	528	528	528	528	528	528	528
Total current liabilities	4,059	5,056	6,433	9,732	9,659	9,798	9,245	10,307	9,759	9,696
Deferred tax liabilities	0	0	0	4,103	4,103	4,103	4,103	4,103	4,103	4,103
Contingent consideration liability, net of current portion	0	0	0	1,251	938	626	314	314	0	0
Total liabilities	4,059	5,056	6,433	15,086	14,700	14,527	13,662	14,724	13,862	13,799
Stockholders' equity	35,925	37,788	39,920	41,618	43,117	44,471	45,455	47,578	49,701	50,899
Total liabilities and stockholders' equity	39,984	42,844	46,353	56,704	57,816	58,998	59,118	62,302	63,563	64,699
Net cash per share	\$ 2.45	\$ 2.77	\$ 2.67	\$ 0.73	\$ 0.96	\$ 1.10	\$ 1.35	\$ 1.02	\$ 1.55	\$ 1.79
Total Debt/total capitalization	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Return on assets	5.5%	7.0%	19.8%	13.9%	16.0%	15.1%	11.3%	17.6%	17.3%	13.6%
Return on equity	6.1%	7.8%	22.6%	17.5%	20.0%	18.7%	13.9%	23.5%	22.6%	17.7%

Sources: Company reports and Sidoti Estimates

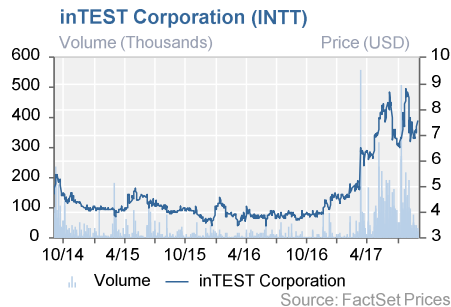
Appendix Required Disclosures

Required Disclosures

inTEST Corporation (INTT-\$7.60) NR Price Target: \$10 Risk Rating: M

Rating and Price Target History Table

Action	Date	Px	Rating	PT	Risk Rating
PT	7/31/14	4.2		5	
PT	8/12/14	4.7		7	
Rating	4/23/15	4.1	N/a	N/A	
Rating	4/23/15	4.1	Deleted	7	



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Appendix

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