Sidoti & Company, LLC
Equity Research

inTEST Corporation (INTT)

Initiate Coverage Of inTEST Corporation With An $11 Price Target

	2016	2017E	2018E	2019E
Mar.	$0.01	$0.21A	$0.18	$0.20
June	0.05	0.16A	0.28	0.30
Sep.	0.11	0.20A	0.27	0.30
Dec.	0.10	0.16	0.20	0.23
EPS	**$0.28**	**$0.73**	**$0.93**	**$1.03**
P/E		12.3x	9.6x	8.7x

Note: *FCF excludes the add back of stock-based compensation expense. NR = Not Rated. Risk Ratings: H = Highly risky; M = Moderately risky. 2016-2019E EPS include about $0.04 of annual stock-based compensation expense. 2016 exclude $0.02 and 2017, 2018 and 2019 exclude $0.11, $0.11 and $0.12, respectively, of amortization of acquired intangible assets. NC = Not covered by Sidoti & Company, LLC.

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018E	2019E
Rev.(Mil.)	$46.2	$47.3	$43.6	$39.4	$41.7	$38.9	$40.3	$65.2	$74.7	$77.1
GAAP EPS	$0.72	$0.96	$0.21	$0.30	$0.33	$0.18	$0.26	$0.68	$0.82	$0.92

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 2017 Ambrell acquisition, inTest sells induction heating systems for industrial manufacturing applications. Headquarters are in Mt. Laurel, NJ.

INTT supplies highly engineered electrical, mechanical and thermal systems. The company's solutions are used for the development and testing of semiconductors, along with the test and production of numerous products spanning the consumer, industrial and defense industries. We expect INTT to gain from secular trends that are driving demand across the technology spectrum. These include advanced capabilities in mobile communications, upgrades to telecom infrastructure, growing electronics content for autos, spending on aerospace and defense, and rising demand for sensors for applications ranging from consumer and automotive, to the emerging Internet of Things (IoT) uses.

INTT's sales to the semiconductor automatic testing equipment (ATE) market are running near peaks. INTT sells electrical interfaces, manipulators and docking hardware to the ATE industry. These components facilitate wafer level testing, allowing equipment from various suppliers to operate seamlessly. The surge in semiconductor capital spending in 2017, including the buildout of test capacity, helped drive record 2017 results for the half of INTT's business serving this market. We estimate demand will remain strong in 2018, but slightly down from 2017. Rising semiconductor complexity and smaller pitches are driving lower yields on wafers, requiring greater testing capacity to clear sufficient quantities of functioning chips. Semiconductor testing intensity is heightened by advanced packaging techniques that co-package chips and, therefore, require added testing to ensure that only "known good die" (KGD) are processed and bundled with other costly components.

Thermal Solutions diversified INTT away from ATE. ATE-related revenue represents 50% of the total today, down from 82% in 2012. Although this market is a solid, sustainable niche, it also exposes INTT to cyclical risk, with annual revenue ranging from about a $28 million trough (in 2015 and 2016) to an estimated $39 million in 2017. Three acquisitions starting in 2000 form the basis of the inTest Thermal Solutions (iTS) segment (68% of total revenue) which not only supplies heating and cooling solutions used in semiconductor development and testing (about 30% of segment revenue), but also provides systems for test and development of products other than chips (25% of segment revenue). About 45% of segment revenue came from the May 2017 acquisition of Ambrell, which supplies induction heating systems used in production applications (as opposed to test and development), and is unrelated to the semiconductor market. We attribute rising demand for thermal systems to several factors, including advances in optical communications technology, automotive electronics growth, defense and aerospace spending and advancement in manufacturing techniques. INTT's systems allow manufacturers to test their products under temperature

NR

Price Target: $11
Price: $8.95
Risk Rating: M

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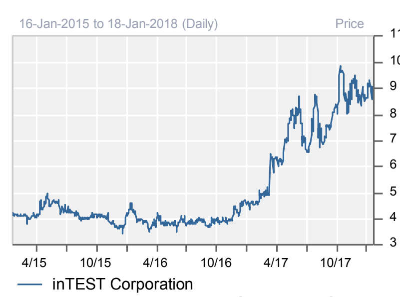
Key Statistics

Analysts Covering	1
Market Cap (Mil)	$90
Enterprise Value	$81
52-Week Range (NYSE	10-4
5-Year EPS CAGR	12%
Avg. Daily Trading Volume	96,000
Shares Out (Mil)	10.351
Float Shares (Mil)	8.229
Insider Ownership	14%
Institutional Holdings	47%
Annualized Dividend	Nil
Dividend Yield	N/A
FCF Per Share (2019E)*	$1.02
FCF Yield (2019E)	11.9%
Net Cash Per Share (2019E)	$2.86
Price to Book Value	2.1x
Return on Equity (2019E)	18.8%
Total Debt to Capital	Nil
Interest Coverage Ratio	N/A
Short Interest %	0.2%
Short Interest Days To Cover	0.3x
Russell 2000	1,577
Russell 2000 - Last 12 Months	16.2%
INTT - Last 12 Months	94.6%



Source: FactSet Prices

conditions that may exist during use.

We estimate steady revenue increases through 2019 due to INTT's rising exposure to secular growth markets; a goal of one acquisition per year could add to our growth outlook. On the ATE side, our 2017 revenue estimate of $38.8 million compares favorably with the four-year average of $29 million and the prior peak of $36 million in 2012. This illustrates the market's cyclicality and limited secular growth. In the past five years, however, non-ATE thermal revenue (about 17% of the total) grew organically at a 12% CAGR to an estimated $13.6 million in 2017, building on a foundation provided by the Sigma (2008) and Thermonics acquisitions (early 2012). In 2Q:17, the acquisition of Ambrell Corporation established INTT in the thermal production equipment market, where we estimate revenue will grow at a high single-digit pace in the next several years and will represent 31% of the mix this year. INTT also targets about one acquisition per year. Since 1998, INTT acquired seven companies, including the purchase of Temptronic for about $40 million in 2000 and Ambrell for $26.7 million in 2017, or about 2.6x and 1.3x annual revenue, respectively. Although acquisitions are likely, we do not include any in our 2018 or 2019 forecasts given the uncertainty related to timing and size.

After a sharp estimated EPS increase in 2017, we forecast more modest, but steady, EPS growth in 2018 and 2019. We estimate 2017 EPS of $0.73, far exceeding the $0.28 posted in 2016, on a 62% revenue increase; we think this was helped by the Ambrell purchase, organic revenue growth of 30%, and 570 basis-points of operating margin expansion to 16.0%. We project revenue will rise 14.5%, year over year in 2018, owing entirely to the Ambrell business, which we estimate will post solid organic growth. We forecast the operating margin will decline 60 basis points, annually, to 15.4% reflecting slight deleverage in the base operations and a modest adverse mix shift with Ambrell contributing nearly all of the revenue gain for 2018. Our $0.93 EPS estimate for 2018 represents 26% growth, includes the benefits from a lower projected tax rate of 28%, compared with 34% in 2017. For 2019, we project a 3% rise in revenue, assuming steady Ambrell expansion and modest growth in the non-ATE thermal business. We project operating margin expansion of 140 basis points to 16.8% and EPS growth of almost 12% to $1.03.

A solid balance sheet and free cash flow generation are key investment positives, in our view. INTT generally maintains a conservative balance sheet with no debt. Although the Ambrell acquisition drove net cash per share to $0.73 at the end of 2Q:17, cash flow generation enabled this to rise to $1.11 at the end of 3Q:17. We forecast the company will remain debt free and estimate cash per share dipped to $1.00 at year-end 2017, before improving to $1.82 and $2.86 at year-end 2018 and 2019, respectively. INTT is not a capital-intensive business, with capital expenditures typically around 0.8% of revenue. We model an increase in 2017-2018 to 1.6%-1.8% of revenue because of leasehold improvements to a new facility for Ambrell, before returning to 0.8% of revenue ($650,000) in 2019. We estimate this will lead to free cash flow of $3.2 million ($0.31 per share) for 2017, $8.2 million ($0.79) for 2018 and $10.7 million ($1.02) for 2018.

We initiate coverage of inTest Corporation with an $11 price target. INTT shares about doubled in the past 12 months, driven, we think, by improved results starting in 3Q:16. This compares with about a 17% rise in the Russell 2000 Index in the same period. Despite this outperformance, INTT still trades at just 10x and 9x our 2018 and 2019 EPS estimates, respectively. When valuing INTT shares, we consider the company's sustainable, albeit cyclical, niche within the ATE market and the secular growth prospects for the remaining half of the business. To derive an $11 price target, we apply an 11x multiple (slightly below our five-year EPS CAGR projection of 12%) to our 2019 EPS estimate of $1.03.

Company Overview

inTest supplies highly engineered electrical, mechanical and thermal systems. The company's solutions are used for the development and test of semiconductors, along with development, testing and production of numerous products spanning the consumer, industrial and defense industries. Founded in Cherry Hill, New Jersey in 1981, INTT completed an initial public offering in 1997 via the sale of 2.28 million shares at $7.50 per. The company's core competency through the late 1990s was test design for semiconductor manufacturing, particularly developing mechanical and electrical interfaces for testing systems supplied by large ATE players.

Three acquisitions beginning in 2000 added thermal testing systems to INTT's product offering, still largely targeting the semiconductor market initially. From 2008 to 2012, inTest significantly expanded its thermal test business in several non-semiconductor industries through the acquisitions of Sigma Systems and Thermonics. The May 2017 acquisition of Ambrell Corp. represented the latest step toward diversifying away from the cyclical ATE markets. As opposed to test and development uses, Ambrell develops thermal systems employed in production processes for various end markets. The inclusion of Ambrell drove non-ATE revenue to represent half of annual sales.

President and CEO James Pelrin joined the company in 2001 and in 2016 became chief operating officer overseeing daily operations. Mr. Pelrin assumed his current positions on January 1, 2018, taking over from Robert Matthiessen who retired at year-end 2017 and will remain Chairman. Insiders hold about 14% of the shares, with the heir of the recently deceased co-founder owning about 9% and management 5%.

Business Segments

inTest reports revenue in two segments: (1) Electromechanical Semiconductor Products (EMS) represents about 32% of revenue and exclusively serves the ATE market; and (2) inTEST Thermal Solutions (iTS, 68% of revenue) sells to the ATE markets and non-semiconductor verticals.

ATE-Related Businesses

Electromechanical semiconductor products (EMS, 32% of revenue). INTT sells electrical interfaces, test head manipulators and docking hardware to the ATE market. These components facilitate wafer level testing by allowing test equipment from various suppliers to operate seamlessly on the test floors of semiconductor producers. Almost all sales are to semiconductor manufacturers and third-party test and assembly houses (OSATs), with only a small portion shipped directly to OEM manufacturers of ATE. Competitors include Advantest (foreign), Esmo AG (foreign), Knight Automation, Reid-Ashman Manufacturing and Teradyne (NYSE: TER, NC). The market is about $80 million, with INTT's share ranging from 10% to 30%, depending on the product. Texas Instruments (NASDAQ: TXN, NC) historically represented 25%-32% of segment revenue; we expect this to continue.

Thermal ATE (20% of revenue). INTT's thermal products allow semiconductor manufacturers to perform thermal testing of integrated circuits (ICs). Such testing generally occurs during product development and involves characterizing or stress-testing myriad electronic devices or materials across extreme and variable temperature conditions (within a range of -100 to +300 degrees Celsius) that could occur during actual usage. Competitors include FormFactor (NASDAQ: FORM, BUY), Cincinnati Sub-Zero Products, Environmental Stress Systems, ERS Electronik GmbH (foreign), Espec (foreign), MPI (foreign), SP Industries and Thermotron Industries. INTT dominates this $20 million market with a 70% share.

Non-ATE Businesses

Non-ATE thermal systems for test and development (17% of revenue). Many of INTT's thermal capabilities and products find application in a broader range of end markets, assisting with product test and development activities. These industries include automotive, consumer electronics, defense/aerospace, energy, industrial and telecommunications. As with ICs, such testing allows for the characterization and stress-testing of myriad devices, modules or materials across temperature conditions that could occur during use. Competitors include Cincinnati Sub-Zero Products, Environmental Stress Systems, Espec and Thermotron Industries. This environmental test market is about $120 million and INTT has roughly a 10% share. INTT grew this business over time and posted an organic revenue CAGR of 12% in the past five years. The sale of systems to the telecom industry for testing optical transceivers represented a source of meaningful growth for this business. INTT management contends the business is optimized strategically and still retains a "catch-as-catch-can" element given a complex sales cycle and infrequent repeat purchases. Although well-positioned for modest secular growth here, INTT also discerned a need to participate in markets outside of test and product development that can expose it to markets with somewhat more methodical drivers of demand.

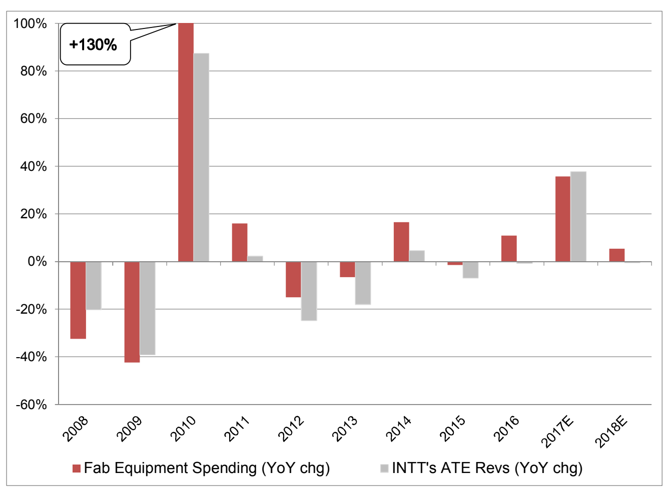
Ambrell/Non-ATE thermal for production (31% of revenue). In May 2017, INTT acquired Ambrell, a manufacturer of precision induction heating products used to quickly and efficiently heat metals and other electrically conductive materials, without contact, in a repeatable fashion. Applicable end markets for such equipment include automotive, aerospace and munitions, consumer products, medical, and oil and gas. Given such varied uses, the market for thermal production equipment is relatively large, at $400 million annually; INTT only has about a 5% share. Given this large market and limited share, we estimate Ambrell sales will expand about 8%-10% annually. Demand for such equipment could receive a lift from recent EU mandates aimed at a reduction in open flames of any sort within a production environment, out of safety and environmental concerns.

State Of The ATE Market

We think the ATE business will benefit from several secular trends that are spurring demand for computing power and the chips that drive it. These trends include advancing capabilities in mobile communications, upgrades to telecom infrastructure, growing electronics content for automotive, strong aerospace and defense spending, and rising demand for sensors enabling applications ranging from consumer and automotive to emerging Internet of Things (IoT) uses. These factors appear likely to increase semiconductor complexity, which drives lower yields and advanced packaging measures. In turn, this will result in more testing and the need for more testing equipment and capacity.

The surge in semiconductor capital spending in 2017, including the buildout of test capacity, helped drive record results for the half of INTT's business serving this market and appears poised for further expansion in 2018. Industry trade group, SEMI, estimates that 2017 semiconductor capital spending was on track to rise 36% and it estimates a 5% increase for 2018, off the elevated spending in 2017. Exhibit 1 shows that INTT's ATE revenue largely reflects changes in this broader measure of semiconductor capital investment.

Exhibit 1: INTT's ATE Revenue Trends Generally Mirror Changes In Industry Capital Spending



Sources: SEMI, Company reports, Sidoti & Company, LLC estimates

Despite the favorable operating environment and prospects for capital spending to grow incrementally in 2018, we model a 1% decline in INTT's revenue from the

ATE market in 2018. As Exhibit 1 shows, there is precedent for more modest growth rates in industry spending (i.e., sub-18%) to translate into flat or declining ATE revenue at INTT, such as in 2011 and 2016. Regardless of whether ATE revenue ends up flat in 2018, up modestly or down slightly, compared with 2017, this still would keep INTT's annual segment revenue near a cyclical high of about $38 million. This is meaningfully above trough revenue estimated at about $28 million, reached most recently in 2015 and 2016.

Streamlining The EMS Segment In 2016

EMS operated as two segments prior to 2016: electrical and mechanical. INTT restructured the business as it exited more commoditized portions of the market—particularly docking hardware for testing memory chips—and focused resources on higher-margin products related to testing systems on chips (SOCs), digital signal processors (DSP) and complex packaged ICs.

The company reduced headcount, redesigned some products, implemented new procurement practices and raised prices for certain manipulator products. Consequently, the EMS segment swung to an operating profit of nearly $1 million in 2016, from a loss of $1 million in 2015, on modest incremental revenue of $1.4 million (+9%). With the help of a cyclical upturn, EMS through the first nine months of 2017 generated a $5.5 million operating profit and 29% operating margin. INTT's incremental profitability on a $6.5 million revenue gain for that period (rising to $19 million) exceeded 70%, with help from actions taken to streamline this business.

Exposure To Secular Growth Plus Acquisitions

In the past five years, non-ATE thermal revenue for testing applications (about 17% of the total) grew organically at a 12% CAGR to an estimated $13.6 million in 2017, building on a foundation provided by the Sigma (2008) and Thermonics acquisitions (2012). This CAGR benefited from entry into the market for testing optical transceivers, which contributed about $6.5 million to revenue through the first nine months of 2017, or 14% of the total. We model more modest revenue gains in 2018-2019 since we do not foresee another source of incremental revenue of this magnitude in the coming years related to test and development. More recently, the acquisition of Ambrell established INTT in the thermal production equipment market that appears likely to post revenue growth at a high single digit pace in the next several years and represent about 31% of the 2018 mix

With nearly half of the portfolio likely to benefit from secular growth, INTT is also targeting about one acquisition per year. Since 1998, INTT acquired seven businesses, including two substantial deals in which INTT paid about $40 million and $26.7 million for Temptronic in 2000 and Ambrell in 2017, or about 2.6x and 1.3x annual revenue, respectively. The remaining transactions were purchases that averaged just $3.6 million, but added meaningful capabilities, more recently on the thermal side of the business. We do not include acquisitions in our forecasts for 2018 and 2019 given the uncertainty related to size and timing.

Mitigating Risks Of Cyclical Exposure

INTT's 3Q:17 results were the 32nd consecutive quarter of profitability. We view this as quite a feat for a company contending with the fluctuations of the semiconductor capital equipment cycle, and one aided by INTT's diversification away from ATE in the past five to seven years. INTT's tight expense management created significant stability in its financial results. Organic revenue in 1Q:17-3Q:17 was up about 36%, compared with the same period in 2016. Despite the sharp increase, operating expenses grew a modest 5% through the first nine months, excluding Ambrell and related transaction costs. This record of earnings durability, coupled with a strong balance sheet and the 2016 restructuring of EMS, help de-risk the investment case for INTT, in our view, despite the inherent volatility that comes with investing in a cyclically-exposed company.

Stellar Returns Due To Low Capital Investment

We see a meaningful investment positive in INTT's returns on invested capital (ROIC). We calculate INTT generated ROIC of 32% in 2014, 19% in 2015 (a year in which EPS declined 41%) and 29% in 2016. Excluding the intangible assets that came with the Ambrell acquisition, INTT was on track for a 45% ROIC in 2017, according to our model. We think this is a remarkable return profile for a company with operating margins in a typical range of 6.5% to 16% and stems directly from INTT's low capital investment.

INTT usually turns over its invested capital base four times a year. This seems particularly high for a manufacturer and it reflects an atypically low investment in property plant and equipment (PP&E). INTT reported gross PP&E investment of just $5.7 million and only $1.5 million net of accumulated depreciation at the end of 3Q:17. Capital expenditures averaged just 0.8% of revenue in the past two years. Although the cash conversion cycle (days receivable plus days inventory minus days payable) is a fairly average 90 days, representing a typical investment in net working capital, INTT's net PP&E of just $1.5 million represents modest investment toward the generation of $40-$52 million of revenue (excluding Ambrell).

The Ambrell acquisition technically lowered INTT's returns due to the inclusion of other assets (including intangibles) in the invested capital base. Furthermore, goodwill balances never amortize and remain on the balance sheet forever, barring a write-down. We estimate intangibles related to the purchase of Ambrell nearly tripled INTT's invested capital base in 2017, driving returns from an estimated 46% to a projected 17% for 2017. However, these intangibles largely reflect that Ambrell, as with INTT, is light on capital investment—a good thing for returns in an economic sense. The assignment of value to intangibles simply reflects disposition of the remaining $26.7 million Ambrell purchase price after first assigning it to Ambrell's modest tangible assets. Given that INTT appears to have paid a reasonable valuation for Ambrell, at about 1.3x revenue, we are inclined to look past the negative effect of acquisition-driven intangibles since they directly result from the same characteristic that historically drove INTT's return profile: a low fixed asset investment.

Recent Results

We view 2016 results as a tale of two halves, with 1H:16 revenue down 12% and 2H:16 revenue up 24%, year over year. This drove vastly different profitability, with 2H:16 EPS of $0.21 compared with $0.06 per share posted in 1H:16. The 2H:16 momentum continued through the first three quarters of 2017, with average year-over-year organic revenue gains of 38%. The 2Q:17 acquisition of Ambrell contributed an additional 20% to top-line growth. The gross margin received a boost from manufacturing leverage, increasing 300 basis points to 52.7% despite the fact that Ambrell typically generates gross margins that are 500-700 basis points lower than the base business. Operating expense in the first three quarters of 2017 rose 39% and represented 36.6% of revenue, compared with 41.5% in the same period of 2016, also leveraging nicely with the ramp up in revenue. Excluding transaction-related expenses and Ambrell intangibles amortization, expenses grew at a 26% annual rate in the first nine months of 2017. The operating margin, inclusive of such costs, expanded to 17.2%, from 8.4% in the first nine months of 2016, and EPS more than tripled to $0.57, from $0.17.

Earnings Outlook

We project revenue will rise 14.5%, year over year, in 2018 owing entirely to the Ambrell business. We estimate Ambrell revenue will increase nearly 15% in 2018, with this growth somewhat offset by a slight pullback in the ATE business, after an exceptionally strong 2017. We forecast the gross margin will decline 240 basis points, year over year, (to 48.8%) reflecting slight deleverage in the base operations and a slightly adverse mix shift given we forecast that Ambrell will account for all of the revenue growth.

We project 2018 GAAP expenses (including stock-based comp and intangibles amortization) will grow 6% from 2017, driven by the full-year inclusion of Ambrell, offset partially by lower transaction-related expenses. Ambrell should benefit from modest leverage, but its cost structure is higher than the legacy businesses. We model these factors will drive operating expenses down 180 basis points, year over year, to 33.4% of revenue and lead to an operating margin of 15.4%, down from a projected 16% for 2017, and 11% growth in operating income. Our 2018 EPS estimate of $0.93 represents a 26% annual increase, and includes 10% growth related to a lower tax rate, which we estimate at 28%, compared with 34% in 2017.

For 2019, we project a 3% annual revenue gain, reflecting steady expansion of the Ambrell business (estimated 9% growth) and modest growth in the non-ATE thermal business. We model the gross margin will widen 90 basis points, year over year, to 49.7%, based on assumed leverage of fixed manufacturing costs. We estimate INTT will continue to exert tight control over expenses, with total operating expenses only growing 2% in 2019. The combination of these assumptions fuels our operating margin estimate of 16.8%, a 140 basis-point rise, year over year. We forecast a 13% increase in annual operating income and EPS growth of almost 12% to $1.03.

Balance Sheet And Cash Flow

INTT generally maintains a conservative balance sheet and held cash per share of $2.67 and no debt at the close of 1Q:17. Although the Ambrell acquisition drove net cash per share down to $0.73 at the end of 2Q:17, solid cash generation helped the cash position recover to $1.11 per share at the end of 3Q:17. We forecast that cash dipped modestly to $1.00 per share at yearend 2017, but model cash per share of $1.82 and $2.86 at year-end 2018 and 2019, respectively. This is driven by estimated cash flows from operations of $4.7 million in 2017, $9.9 million in 2018 and $11.8 million in 2019.

INTT's business is not capital-intensive. We model capital spending for 2017-2018 will fall in the range of 1.6%-1.8% of revenue (about $1.2 million each year) because of leasehold improvements needed for a new facility for Ambrell; we estimate such spending will fall to a more typical 0.8% of revenue ($650,000) in 2019. We model this will lead to free cash flow of $3.2 million ($0.31 per share) for 2017, $8.2 million ($0.79) for 2018 and $10.7 million ($1.02) for 2018.

Risks

Cyclicality. The semiconductor industry is cyclical with downturns generally eroding demand. INTT's revenue is subject to changes in semiconductor capital spending.

Customer concentration. The concentration of customers is high, with INTT's top 10 customers accounting for 50% of revenue in 2016.

Integration risk. Although INTT will operate Ambrell separately, integration risk remains for this acquisition along with any potential future deals.

Valuation

INTT shares doubled in the past 12 months as improved results starting in 3Q:16 countered the typical seasonal slowdown in 2H:16. This compared to about a 17% rise in the Russell 2000 Index in the same period. Despite this outperformance, we note that INTT still trades at a reasonable 9.6x our 2018 EPS estimate and 8.7x our 2019 estimate. We think the solid business momentum that characterized 2017 will continue in 2018 and 2019, albeit at a more moderate pace, and note that additional acquisitions, not yet in our forecasts, could spur us to raise our revenue and EPS forecasts.

To value INTT shares, we take into consideration the company's sustainable niche—albeit cyclical—in the ATE market, along with secular growth prospects that are propelling half of the business. We also note our 5-year EPS CAGR forecast of 12%. Thus, to arrive at an $11 price target, we apply an 11x multiple to our 2019 EPS estimate of $1.03. This multiple represents a slight discount to our 5-year EPS CAGR projection.

Table 1. inTEST Corporation Income Statement
($ in thousands, except per share amounts)

	Mar	Jun	Sep	Dec	2016	Mar A	Jun A	Sep A	Dec E	2017E	Mar E	Jun E	Sep E	Dec E	2018E	2019E
Net revenue	**$ 8,674**	**$ 10,485**	**$ 10,832**	**$ 10,272**	**$ 40,263**	**$ 14,180**	**$ 15,888**	**$ 17,352**	**$ 17,800**	**$ 65,220**	**$ 17,100**	**$ 19,850**	**$ 19,700**	**$ 18,050**	**$ 74,700**	**$ 77,083**
Growth (year-over-year)	-14.9%	-9.3%	17.7%	29.4%	3.5%	63.5%	51.5%	60.2%	73.3%	62.0%	20.6%	24.9%	13.5%	1.4%	14.5%	3.2%
Cost of revenue	4,607	5,156	5,255	4,867	19,885	6,452	7,467	8,556	9,363	31,838	8,789	10,124	10,047	9,296	38,256	38,736
Gross profit	4,067	5,329	5,577	5,405	20,378	7,728	8,421	8,796	8,437	33,382	8,311	9,727	9,653	8,754	36,444	38,347
Selling expense	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	9,366
Engineering and product development expense	991	982	905	782	3,660	935	982	1,139	1,140	4,196	1,140	1,140	1,140	1,140	4,560	4,642
G&A expense	1,645	2,145	1,574	1,641	7,005	1,994	3,286	3,143	2,743	11,166	2,793	2,793	2,793	2,793	11,172	11,373
Restructuring and other one time items	0	0	0	0	0	0	0	(549)	0	(549)	0	0	0	0	0	0
Operating income	**96**	**731**	**1,704**	**1,615**	**4,146**	**3,131**	**2,282**	**2,741**	**2,254**	**10,408**	**2,078**	**3,494**	**3,420**	**2,521**	**11,512**	**12,966**
Growth (year-over-year)	-85.9%	-55.4%	NM	NM	61.8%	NM	212.2%	60.9%	39.6%	151.0%	-33.6%	53.1%	24.8%	11.8%	10.6%	12.6%
Other income (expenses)	28	18	17	(2)	61	41	54	100	100	295	100	100	100	100	400	400
Pretax income	124	749	1,721	1,613	4,207	3,172	2,336	2,841	2,354	10,703	2,178	3,594	3,520	2,621	11,912	13,366
Income tax expense	43	263	631	612	1,549	1,094	891	823	871	3,679	610	1,006	986	734	3,335	3,743
Net income	**81**	**486**	**1,090**	**1,001**	**2,658**	**2,078**	**1,445**	**2,018**	**1,483**	**7,024**	**1,568**	**2,587**	**2,534**	**1,887**	**8,577**	**9,624**
Growth (year-over-year)	-81.5%	-55.0%	NM	NM	42.8%	NM	NM	85.1%	48.2%	164.3%	-24.5%	79.1%	25.6%	27.2%	22.1%	12.2%
EPS - basic	$ 0.01	$ 0.05	$ 0.11	$ 0.10	$ 0.26	$ 0.20	$ 0.14	$ 0.20	$ 0.14	$ 0.68	$ 0.15	$ 0.25	$ 0.25	$ 0.18	$ 0.83	$ 0.93
EPS- diluted	**$ 0.01**	**$ 0.05**	**$ 0.11**	**$ 0.10**	**$ 0.26**	**$ 0.20**	**$ 0.14**	**$ 0.19**	**$ 0.14**	**$ 0.68**	**$ 0.15**	**$ 0.25**	**$ 0.24**	**$ 0.18**	**$ 0.82**	**$ 0.92**
Growth (year-over-year)	-81.4%	-54.2%	NM	NM	45.1%	NM	NM	84.6%	47.1%	NM	-25.2%	77.8%	24.7%	26.4%	21.2%	11.4%
EPS- diluted non-GAAP	**$ 0.01**	**$ 0.05**	**$ 0.11**	**$ 0.10**	**$ 0.28**	**$ 0.21**	**$ 0.16**	**$ 0.20**	**$ 0.16**	**$ 0.73**	**$ 0.18**	**$ 0.28**	**$ 0.27**	**$ 0.20**	**$ 0.93**	**$ 1.03**
Growth (year-over-year)	-72.3%	-52.1%	NM	NM	36.6%	NM	NM	80.0%	59.2%	NM	-14.3%	67.8%	34.8%	25.1%	26.2%	11.6%
Weighted average shares- diluted	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	273	882	1,900	1,800	4,800	3,300	2,700	3,600	2,654	12,254	2,478	3,894	3,820	2,921	13,112	14,566
Margin analysis:																
Gross margin	**46.9%**	**50.8%**	**51.5%**	**52.6%**	**50.6%**	**54.5%**	**53.0%**	**50.7%**	**47.4%**	**51.2%**	**48.6%**	**49.0%**	**49.0%**	**48.5%**	**48.8%**	**49.7%**
selling expense as a % of revenue	15.4%	14.0%	12.9%	13.3%	13.8%	11.8%	11.8%	13.4%	12.9%	12.5%	13.5%	11.6%	11.7%	12.7%	12.3%	12.2%
R&D expense as a % of revenue	11.4%	9.4%	8.4%	7.6%	9.1%	6.6%	6.2%	6.6%	6.4%	6.4%	6.7%	5.7%	5.8%	6.3%	6.1%	6.0%
G&A expense as a % of revenue	19.0%	20.5%	14.5%	16.0%	17.4%	14.1%	20.7%	18.1%	15.4%	17.1%	16.3%	14.1%	14.2%	15.5%	15.0%	14.8%
Op expense as a % of revenue	45.8%	43.9%	35.8%	36.9%	40.3%	32.4%	38.6%	34.9%	34.7%	35.2%	36.5%	31.4%	31.6%	34.5%	33.4%	32.9%
Operating margin	**1.1%**	**7.0%**	**15.7%**	**15.7%**	**10.3%**	**22.1%**	**14.4%**	**15.8%**	**12.7%**	**16.0%**	**12.1%**	**17.6%**	**17.4%**	**14.0%**	**15.4%**	**16.8%**
EBITDA margin	3.1%	8.4%	17.5%	17.5%	11.9%	23.3%	17.0%	20.7%	14.9%	18.8%	14.5%	19.6%	19.4%	16.2%	17.6%	18.9%
Tax rate	34.7%	35.1%	36.7%	37.9%	36.8%	34.5%	38.1%	29.0%	37.0%	34.4%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%

Note: non-GAAP numbers exclude amortization of acquired intangibles

Sources: Company reports and Sidoti & Company, LLC estimates

Table 2. inTEST Corporation Cash Flow Statement
($ in thousands, except per share amounts)

	2016	Mar A	Jun A	Sep A	Dec E	2017E	Mar E	Jun E	Sep E	Dec E	2018E	2019E
Cash flows from operating activities												
Net earnings	$ 2,658	$ 2,078	$ 1,445	$ 2,018	$ 1,483	$ 7,024	$ 1,568	$ 2,587	$ 2,534	$ 1,887	$ 8,577	$ 9,624
Depreciation and amortization	599	150	373	794	445	1,762	445	456	468	468	1,836	1,870
Provision for excess and obsolete inventory	226	47	43	71	65	226	62	62	62	62	249	298
Foreign exchange loss (gain)	16	(12)	(17)	(101)	(75)	(205)	0	0	0	0	0	0
Amortization of deferred comp related to stock-based awards	269	88	98	106	106	398	106	106	106	106	424	452
Loss on sale of property and equipment	0	0	0	(4)	0	(4)	0	0	0	0	0	0
Proceeds from sale of demonstration equipment, net of gain	129	31	1	21	5	58	15	15	15	15	61	64
Deferred income tax expenses	135	(6)	65	(284)	(115)	(340)	35	35	35	35	140	148
Trade accounts receivable	(1,009)	(4,423)	1,539	1,824	(1,869)	(2,929)	288	(3,204)	2,056	(102)	(961)	(672)
Inventory	(384)	(291)	(406)	116	(375)	(956)	1,671	(3,025)	1,654	(391)	(90)	(543)
Prepaid expenses and other current assets	295	(31)	(53)	(80)	127	(37)	143	(349)	6	192	(8)	(50)
Restricted certificates of deposit	175	0	0	0	0	0	0	0	0	0	0	0
Other assets	178	(5)	2	4	(2)	(1)	(1)	(1)	2	(3)	(3)	(3)
Accounts payable	459	465	(430)	(461)	(137)	(563)	261	380	(873)	249	18	155
Accrued wages and benefits	126	(400)	266	116	379	361	(983)	524	293	187	21	180
Accrued rent	(85)	(28)	(7)	(7)	5	(37)	11	22	(40)	(32)	(39)	20
Accrued professional fees	57	(11)	24	164	13	190	14	28	(15)	58	85	31
Accured sales commissions	(10)	148	(90)	25	7	90	128	(47)	(82)	12	12	34
Customer deposits and deferred revenue	0	0	(19)	321	(221)	81	(35)	138	(8)	(83)	13	75
Domestic and foreign income taxes payable	549	1,050	(726)	148	22	494	22	(23)	22	90	112	49
Contingent consideration liability	0	0	2,302	(2,851)	(312)	(861)	(312)	0	(314)	0	(626)	0
Other current liabilities	(95)	150	(32)	(130)	6	(6)	8	(8)	8	33	41	18
Net cash provided by operating activities	4,288	(1,000)	4,378	1,810	(444)	4,744	3,448	(2,303)	5,932	2,784	9,861	11,751
Cash flows from investing and financing activities												
Acquisition of business, net of cash acquired	0	0	(24,264)	2,302	0	(21,962)	0	0	0	0	0	0
Purchase of property and equipment	(339)	(114)	(82)	(204)	(750)	(1,150)	(750)	(150)	(150)	(150)	(1,200)	(650)
Repurchases of common stock	(978)	(62)	0	0	0	(62)	(10)	(10)	(10)	(10)	(40)	(45)
Net cash used in investing and financing activities	(1,317)	(176)	(24,346)	2,098	(750)	(23,174)	(760)	(160)	(160)	(160)	(1,240)	(695)
Effects of exchange rates on cash	(70)	20	109	(5)	0	124	0	0	0	0	0	0
Net cash provided by all activities	2,901	(1,156)	(19,859)	3,903	(1,194)	(18,306)	2,688	(2,463)	5,772	2,624	8,621	11,057
Cash and cash equivalents at the beginning of period	25,710	28,611	27,455	7,596	11,499	28,611	10,305	12,993	10,529	16,302	10,305	18,926
Cash and cash equivalents at the end of period	28,611	27,455	7,596	11,499	10,305	10,305	12,993	10,529	16,302	18,926	18,926	29,982
Free cash flow ex stock based compensation	3,680	(1,202)	4,198	1,500	(1,300)	3,196	2,592	(2,559)	5,676	2,528	8,237	10,650
Free cash flow ex stock based compensation per share	**$0.35**	**($0.12)**	**$0.41**	**$0.15**	**($0.13)**	**$0.31**	**$0.25**	**($0.25)**	**$0.55**	**$0.24**	**$0.79**	**$1.02**

Sources: Company reports and Sidoti & Company, LLC estimates

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

	2016	Mar A	Jun A	Sep A	2017E	Mar E	Jun E	Sep E	2018E	2019E
Assets:										
Cash and cash equivalents	$ 28,611	$ 27,455	$ 7,596	$ 11,499	$ 10,305	$ 12,993	$ 10,529	$ 16,302	$ 18,926	$ 29,982
Trade accounts receivables	5,377	9,817	11,938	10,225	12,094	11,806	15,010	12,953	13,055	13,727
Inventory	3,676	3,921	6,212	6,033	6,408	4,737	7,761	6,107	6,498	7,041
Prepaid expense and other current assets	342	374	629	714	587	445	794	788	596	645
Property and equipment:										
Machinery and equipment	4,383	4,418	5,004	4,993	5,743	6,493	6,643	6,793	6,943	7,593
Leasehold improvements	603	604	711	730	730	730	730	730	730	730
Gross property and equipment	4,986	5,022	5,715	5,723	6,473	7,223	7,373	7,523	7,673	8,323
Less: accumulated depreciation	(4,042)	(4,088)	(4,190)	(4,179)	(4,338)	(4,497)	(4,656)	(4,815)	(4,974)	(5,610)
Net property and equipment	944	934	1,525	1,544	2,135	2,726	2,717	2,708	2,699	2,713
Deferred tax assets	1,110	1,116	0	0	0	0	0	0	0	0
Goodwill	1,706	1,706	18,526	13,738	13,738	13,738	13,738	13,738	13,738	13,738
Intangible assets, net	875	822	10,072	16,259	15,659	15,059	14,459	13,859	13,259	10,859
Restricted certificates of deposit	175	175	175	175	175	175	175	175	175	175
Other assets	28	33	31	27	29	30	31	29	32	35
Total assets	42,844	46,353	56,704	60,214	61,131	61,708	65,214	66,659	68,978	78,915
Liabilities:										
Accounts payable	1,368	1,833	2,823	2,363	2,226	2,487	2,867	1,995	2,244	2,398
Accrued wages and benefits	1,588	1,191	2,103	2,218	2,597	1,614	2,138	2,431	2,618	2,798
Accrued rent	572	544	537	530	535	546	568	528	496	516
Accrued professional fees	419	408	514	682	695	709	737	723	780	812
Accrued sales commissions	287	435	450	476	483	611	565	483	495	529
Customer deposits and deferred revenue	0	0	787	1,111	890	855	993	985	903	978
Domestic and foreign income taxes payable	575	1,625	939	1,087	1,109	1,131	1,108	1,130	1,221	1,270
Current portion of contingent consideration liability	0	0	1,051	0	0	0	0	0	0	0
Other current liabilities	247	397	528	400	406	414	406	414	447	465
Total current liabilities	5,056	6,433	9,732	8,867	8,940	8,367	9,381	8,688	9,203	9,765
Deferred tax liabilities	0	0	4,103	4,010	4,010	4,010	4,010	4,010	4,010	4,010
Contingent consideration liability, net of current portion	0	0	1,251	3,574	3,262	2,950	2,950	2,636	2,636	2,636
Total liabilities	5,056	6,433	15,086	16,451	16,212	15,327	16,341	15,334	15,849	16,411
Stockholders' equity	37,788	39,920	41,618	43,763	44,918	46,380	48,873	51,325	53,129	62,504
Total liabilities and stockholders' equity	42,844	46,353	56,704	60,214	61,131	61,708	65,214	66,659	68,978	78,915
Net cash per share	$ 2.77	$ 2.67	$ 0.73	$ 1.11	$ 1.00	$ 1.25	$ 1.01	$ 1.56	$ 1.82	$ 2.86
Return on assets	7.0%	19.8%	13.9%	16.2%	14.6%	13.6%	18.8%	17.7%	14.8%	14.7%
Return on equity	7.8%	22.6%	17.5%	20.5%	18.4%	17.1%	25.3%	23.6%	19.7%	18.8%

Sources: Company reports and Sidoti & Company, LLC estimates

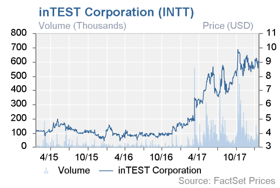
Appendix
Required Disclosures

Required Disclosures

inTEST Corporation (INTT-$8.95) NR Price Target: $11 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
Rating	11/13/17	7.6	Suspended	10	



Risks

Cyclicality. The semiconductor industry is cyclical with downturns generally eroding demand. INTT's revenue is subject to changes in semiconductor capital spending.

Customer concentration. The concentration of customers is high, with INTT's top 10 customers accounting for 50% of revenue in 2016.

Integration risk. Although INTT will operate Ambrell separately, integration risk remains for this acquisition along with any potential future deals.

Valuation

INTT shares doubled in the past 12 months as improved results starting in 3Q:16 countered the typical seasonal slowdown in 2H:16. This compared to about a 17% rise in the Russell 2000 Index in the same period. Despite this outperformance, we note that INTT still trades at a reasonable 9.6x our 2018 EPS estimate and 8.7x our 2019 estimate. We think the solid business momentum that characterized 2017 will continue in 2018 and 2019, albeit at a more moderate pace, and note that additional acquisitions, not yet in our forecasts, could spur us to raise our revenue and EPS forecasts.

To value INTT shares, we take into consideration the company's sustainable niche—albeit cyclical—in the ATE market, along with secular growth prospects that are propelling half of the business. We also note our 5-year EPS CAGR forecast of 12%. Thus, to arrive at an $11 price target, we apply an 11x multiple to our 2019 EPS estimate of $1.03. This multiple represents a slight discount to our 5-year EPS CAGR projection

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