

Action Summary – 3 August 2018

Analyst Theodore R. O'Neill *is reviewing 2Q18 results*

- Company reported non-GAAP EPS of \$0.34 or \$0.11 better than consensus on higher than expected revenue of \$21.1M versus consensus of \$19.2M. Results were \$0.06 better than consensus on an operating basis.
- We are raising our 2018 non-GAAP EPS estimates by \$0.20 to reflect better than expected results in the current quarter as well as higher expectations for 3Q18, relative to our estimates.
- Company executing well on strategic plan to enter new markets with 38% of revenue this quarter coming from non-legacy customers up from 20% five years earlier
- Valuation appears attractive relative to peers on multiple measures (see Figure 2)
- We forecast 16% revenue growth in 2018 and a decline of 3% in 2019 which we feel is conservative

Intra-day share price: \$7.89	Market cap: \$82 million	2019 P/E: 11	EV/2018 Sales: ~1.0
Shares outstanding: 10.4 million	Insider ownership: 4%	Avg. trading volume: 80,000	Dividend: NA

Macroeconomic context

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

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

Period	EPS	Revenue	Op Margin
1Q17A	\$0.21	\$14.2	22.1%
2Q17A	\$0.16	\$15.9	14.4%
3Q17A	\$0.20	\$17.3	12.6%
4Q17A	<u>\$0.31</u>	<u>\$19.4</u>	<u>15.4%</u>
FY17A	<u>\$0.88</u>	<u>\$66.8</u>	<u>15.8%</u>
1Q18A	\$0.22	\$18.9	14.0%
2Q18A	\$0.34	\$21.1	18.0%
3Q18E	\$0.21	\$19.5	13.4%
4Q18E	<u>\$0.13</u>	<u>\$18.0</u>	<u>10.0%</u>
FY18E	<u>\$0.90</u>	<u>\$77.5</u>	<u>14.0%</u>
1Q19E	\$0.15	\$18.0	10.8%
2Q19E	\$0.21	\$20.0	13.9%
3Q19E	\$0.19	\$19.0	12.8%
4Q19E	<u>\$0.15</u>	<u>\$18.0</u>	<u>10.4%</u>
FY19E	<u>\$0.70</u>	<u>\$75.0</u>	<u>12.1%</u>

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

Cash balance (in millions)

- | | |
|---------|----------|
| • 2017A | • \$13.3 |
| • 2018E | • \$12.7 |
| • 2019E | • \$23.0 |

Debt (in millions)

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

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

EBITDA (in millions)

- | | |
|---------|----------|
| • 2017A | • \$12.2 |
| • 2018E | • \$11.4 |
| • 2019E | • \$9.5 |

Risks/Valuation

- Growth rate above ~GDP is dependent on acquisitions and new product development
- Trading volume is low. The three month average is 80,000 shares/day
- Our \$12 target is derived using a synthetic dividend discount model, details of which can be found in this report

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

Figure 1 – inTEST Corporation - Trading snapshot

Stock gapped up post 2Q18 conference call on better than expected results



Source: BigCharts.Marketwatch.com

ViewPoint

We like the growth, the growing cash and valuation

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

Figure 2 – inTEST Corporation - Peer Comparable Table

Company Name	Price / EPS (SmartEstimate®) (FY2)	Historic Price/Rev/Shr (dil.) (FY0)	Price / Revenue (SmartEstimate®) (FY2)	EV / EBITDA (SmartEstimate®) (FY1)	EV / EBITDA (SmartEstimate®) (FY2)	EV / Revenue (SmartEstimate®) (FY2)
Aehr Test Systems	11.85	2.00	1.24	NA	NA	0.99
Amtech Systems Inc	13.38	0.98	0.43	4.27	4.18	0.22
FormFactor Inc	11.24	2.12	1.79	10.68	8.24	1.55
Xcerra Corp	12.77	1.36	1.57	7.58	7.01	1.22
Cohu Inc	12.78	1.80	1.74	9.10	7.70	1.40
inTest Corp	7.25	1.33	0.98	5.02	6.42	0.79
Average	11.55	1.60	1.29	7.33	6.71	1.03
INTT Premium/(Discount) to peers	(4.29)	(0.27)	(0.31)	(2.30)	(0.29)	(0.24)
Discount Percent	-37%	-17%	-24%	-31%	-4%	-23%

Source: Thomson Reuters Eikon and Litchfield Hills Research. Key: FY0=2017, FY1=2018, FY2=2019; SmartEstimate® is a Thomson Reuters proprietary adjusted mean consensus estimate

Financial Analysis

The company ended the quarter with \$10.7M (or \$1.01 per share) in cash and no debt and we project that balance will grow through 2018. We expect it to end the year closer to \$12M. DSOs average in the low 30s and inventory turns are in the teens. Operating income as a percent of sales was 18% in the most recent quarter but a more sustainable margin would be in the low teens.

Forecasts

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

Price Target

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

Field Work

We have made multiple visits to the company over many years. Our most recent visit was in June 2018.

2Q18 Results

As shown in Figure 2 (below), results were nominally better than expected with higher sales and gross profit margins partially offset by higher expenses. GAAP results were \$0.19 better than expected of which \$0.07 was due to better operating results and the remaining \$0.12 was due to other income and lower taxes. As in 1Q18, 2Q18 non-operating results and taxes were impacted by the accounting for a positive-performance payout to Ambrell.

Figure 3 - InTEST Corporation - Variance Analysis

	2018	2018	
(\$000)	Q2E	Q2A	Better/(worse) than forecast
Income Statement			
Total Revenue	\$19,000	\$21,097	\$2,097
Total cost of revenue	<u>9,481</u>	<u>10,187</u>	(706)
Total Gross Profit	9,519	10,910	1,391
Operating expenses:			
Research and development	\$2,500	\$2,538	(\$38)
Selling and Service	1,250	1,230	20
General and administrative	<u>2,900</u>	<u>3,335</u>	(435)
Total Expenses	<u>6,650</u>	<u>7,103</u>	(\$453)
Earnings (loss) from Operations	2,869	3,807	1,138
Total Other income/(expense)	<u>(200)</u>	<u>589</u>	\$789
Earnings before taxes	2,669	4,396	1,727
Tax expense/(benefit)	<u>614</u>	<u>382</u>	<u>232</u>
Net income	<u>\$2,055</u>	<u>\$4,014</u>	<u>\$1,959</u>
EPS	\$ 0.20	\$ 0.39	\$ 0.19
For First Call	\$ 0.22	\$ 0.34	\$ 0.12
Diluted common shares	10,368	10,370	2

Figure 4 - inTEST Corporation - Income Statement

(\$ in thousands except per share)

December year-end	2015 Year	2016 Year	2017				2017 Year	2018E				2018E Year	2019E				2019E Year
			Q1	Q2	Q3	Q4		Q1	Q2	Q3E	Q4E		Q1E	Q2E	Q3E	Q4E	
Total revenue	\$38,889	\$40,227	\$14,180	\$15,888	\$17,352	\$19,381	\$66,801	\$18,871	\$21,097	\$19,500	\$18,000	\$77,468	\$18,000	\$20,000	\$19,000	\$18,000	\$75,000
<i>Growth</i>	-7%	3%	64%	52%	60%	89%	66%	33%	33%	12%	-7%	16%	-5%	-5%	-3%	0%	-3%
Cost of Goods	20,191	19,849	6,452	7,467	8,556	9,636	32,111	9,476	10,187	10,140	9,000	38,803	9,000	10,000	9,500	9,000	37,500
Gross Profit	18,698	20,378	7,728	8,421	8,796	9,745	34,690	9,395	10,910	9,360	9,000	38,665	9,000	10,000	9,500	9,000	37,500
Gross Margin	48.1%	50.7%	54.5%	53.0%	50.7%		51.9%	49.8%	51.7%	48.0%	50.0%	49.9%	50.0%	50.0%	50.0%	50.0%	50.0%
Selling	\$5,797	\$5,567	\$1,668	\$1,871	\$2,322	\$2,247	\$8,108	\$2,476	\$2,538	\$2,400	\$2,500	\$9,914	\$2,500	\$2,600	\$2,500	\$2,500	\$10,100
% of total revenue	15%	14%	12%	12%	13%	12%	12%	13%	12%	12%	14%	13%	14%	13%	13%	14%	13%
R&D	\$3,935	\$3,660	\$935	\$982	\$1,139	\$1,245	\$4,301	\$1,296	\$1,230	\$1,250	\$1,250	\$5,026	\$1,250	\$1,300	\$1,250	\$1,300	\$5,100
% of total revenue	10%	9%	7%	6%	7%	6%	6%	7%	6%	6%	7%	6%	7%	7%	7%	7%	7%
General and administrative	\$6,404	\$7,005	\$1,994	\$3,286	\$3,143	\$3,271	\$11,694	\$2,990	\$3,335	\$3,100	\$3,450	\$12,875	\$3,300	\$3,320	\$3,320	\$3,320	\$13,260
% of total revenue	16%	17%	14%	21%	18%	17%	18%	16%	16%	16%	19%	17%	18%	17%	17%	18%	18%
Total Operating Expenses	16,136	16,232	4,597	6,139	6,604	6,763	24,103	6,762	7,103	6,750	7,200	27,815	7,050	7,220	7,070	7,120	28,460
Operating Income	2,562	4,146	3,131	2,282	2,192	2,982	10,587	2,633	3,807	2,610	1,800	10,850	1,950	2,780	2,430	1,880	9,040
Operating Margin	6.6%	10.3%	22.1%	14.4%	12.6%	15.4%	15.8%	14.0%	18.0%	13.4%	10.0%	14.0%	10.8%	13.9%	12.8%	10.4%	12.1%
Total Other Items	21	61	41	54	649	(7,493)	(6,749)	(1,651)	589	(100)	(200)	(1,362)	(100)	(100)	(100)	(100)	(400)
Pre-Tax Income	2,583	4,207	3,172	2,336	2,841	(4,511)	3,838	982	4,396	2,510	1,600	9,488	1,850	2,680	2,330	1,780	8,640
Pre-Tax Margin	6.6%	10.5%	22.4%	14.7%	16.4%	-23.3%	5.7%	5.2%	20.8%	12.9%	8.9%	12.2%	10.3%	13.4%	12.3%	9.9%	11.5%
Taxes (benefit)	722	1,549	1,094	891	823	55	2,863	601	382	577	368	1,928	426	616	536	409	1,987
Tax Rate	28.0%	36.8%	34.5%	38.1%	29.0%	-1.2%	74.6%	61.2%	8.7%	23.0%	23.0%	20.3%	23.0%	23.0%	23.0%	23.0%	23.0%
Net Income (loss)	1,861	2,658	2,078	1,445	2,018	(4,566)	975	381	4,014	1,933	1,232	7,560	1,425	2,064	1,794	1,371	6,653
Net Margin	4.8%	6.6%	14.7%	9.1%	11.6%	-23.6%	1.5%	2.0%	19.0%	9.9%	6.8%	9.8%	7.9%	10.3%	9.4%	7.6%	8.9%
EPS, as reported	0.18	0.26	0.20	0.14	0.19	(0.44)	0.09	0.04	0.39	0.19	0.12	0.73	0.14	0.20	0.17	0.13	0.64
non-GAAP EPS	0.18	0.28	0.21	0.16	0.20	0.31	0.88	0.22	0.34	0.21	0.13	0.90	0.15	0.21	0.19	0.15	0.70
Diluted Shares Outstanding	10,494	10,333	10,295	10,335	10,351	10,308	10,339	10,365	10,370	10,373	10,376	10,371	10,379	10,374	10,382	10,377	10,378

Sources: Company reports and Litchfield Hills Research, LLC

Figure 5 - inTEST Corporation - Balance Sheet

(\$ in thousands except per share)

December year-end	FY2019E	FY2018E	FY2017	FY2016	FY2015
Balance sheet					
Current Assets					
Cash and S.T.I.	\$23,013	\$12,660	\$13,290	\$28,611	\$25,710
Accounts receivable	14,000	13,000	12,166	5,377	4,395
Inventories	7,500	6,000	4,966	3,676	3,520
Other assets	<u>19,000</u>	<u>22,000</u>	<u>26,529</u>	<u>342</u>	<u>639</u>
Total Current Assets	63,513	53,660	56,951	38,006	34,264
Net PP&E	1,850	1,750	1,542	944	1,112
Other non-current assets	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>	<u>3,894</u>	<u>4,608</u>
Total Assets	\$69,363	\$59,410	\$62,493	\$42,844	\$39,984
Current Liabilities					
Accounts payable	\$3,400	\$2,100	\$2,032	\$1,368	\$909
Accrued expenses	\$7,000	\$6,000	\$5,833	\$2,866	\$2,783
Deferred revenue	\$0	\$0	\$0	\$0	\$0
Other current liabilities	<u>\$1,000</u>	<u>\$1,000</u>	<u>\$6,554</u>	<u>\$822</u>	<u>\$367</u>
Total current liabilities	11,400	9,100	14,419	5,056	4,059
Revolving line of credit - LT	0	0	0	0	0
Other Liabilities	<u>2,500</u>	<u>2,500</u>	<u>8,786</u>	<u>0</u>	<u>0</u>
Total Liabilities	13,900	11,600	23,205	5,056	4,059
Stockholders' Equity					
Preferred stock	0	0	0	0	0
Common stock	104	104	104	104	105
Additional paid-in-capital	28,000	27,000	26,000	25,578	26,286
Retained earnings	26,859	20,206	12,646	11,671	9,013
Cum. Other comp and treasury stock	<u>500</u>	<u>500</u>	<u>538</u>	<u>435</u>	<u>521</u>
Total stockholders' equity	<u>55,463</u>	<u>47,810</u>	<u>39,288</u>	<u>37,788</u>	<u>35,925</u>
Total Liabilities and equity	\$69,363	\$59,410	\$62,493	\$42,844	\$39,984

Sources: Company reports and Litchfield Hills Research, LLC



inTEST Corporation

INTT-Buy-\$12 PT

Figure 6 - inTEST Corporation - Cash Flow

(\$ in thousands except per share)				
	FY19E	FY18E	FY17	FY16
Net Income	\$6,653	\$7,560	\$975	\$2,658
Accounts receivable	(1,000)	(834)	(6,789)	(982)
Inventories	(1,500)	(1,034)	(1,290)	(156)
Other assets	3,000	4,529	(26,187)	297
PP&E	(100)	(208)	(598)	168
Other non-current	0	0	(106)	714
Accounts payable	1,300	68	664	459
Accrued expenses	1,000	167	2,967	83
Deferred revenue	0	0	0	0
Other current liabilities	0	(5,554)	5,732	455
Revolving line of credit - LT	0	0	0	0
Other Liabilities	0	(6,286)	8,786	0
Preferred stock	0	0	0	0
Common stock	0	0	0	(1)
Additional paid-in-capital	1,000	1,000	422	(708)
Cum. trans. adj. and treasury stock	0	(38)	103	(86)
Dividends	0	0	0	0
Total Cash Flow	\$10,353	(\$630)	(\$15,321)	\$2,901

Sources: Company reports and Litchfield Hills Research, LLC

Disclosures:

Analyst Certification

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