

inTEST Corporation

Fourth Quarter Fiscal Year 2024

Earnings Results Conference Call Transcript

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Presenters and Participants

PRESENTERS

Nick Grant

President & CEO

Duncan Gilmour

CFO, Secretary & Treasurer

Shawn Southard

Investor Relations

PARTICIPANTS

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Ted Jackson

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Presentation

Operator

Greetings and welcome to the inTEST Corporation Fourth Quarter 2024 Financial Results. At this time, all participants are in a listen-only mode. [Operator Instructions] A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It's now my pleasure to introduce your host, Shawn Southard. Please go ahead, Shawn.

Shawn Southard

Investor Relations

Good morning, everyone. We certainly appreciate your interest in inTEST Corporation and thank you for sharing your time with us today. Joining me on our call are Nick Grant, our President and Chief Executive Officer, and Duncan Gilmour, our Chief Financial Officer and Treasurer. You should have received the earnings release that went out this morning, as well as the slides that will accompany our conversation today. If not, you can find these documents on the Investor Relations section of our website, intest.com.

Please turn to **slide 2**, as I review the Safe Harbor Statement. During this call, management may make some forward-looking statements about our current plans, beliefs and expectations. These statements apply to future events that are subject to risks, uncertainties and other factors that could cause actual events to differ materially from what is stated here today. These risks, uncertainties and other factors are provided in the earnings release, as well as other documents filed by the company with the Securities and Exchange Commission. These documents can be found on our website or at sec.gov.

Also, as covered on **slide 3**, management will refer to some non-GAAP financial measures. We believe these will be useful in evaluating our performance. However, you should not consider the presentation of this additional information in isolation or as a substitute for results prepared in accordance with GAAP. You can find reconciliations of non-GAAP measures with comparable GAAP measures in the tables that accompany today's release and slides.

Now, please turn to **slide 4**. Nick, I'll turn the call over to you.

Nick Grant

President & CEO, inTEST Corp.

Thank you, Shawn, and good morning, everyone. Thanks for joining us for our fourth quarter 2024 earnings call. I'm pleased to report record fourth quarter revenue of \$36.6 million, and notably for 2024, we delivered our third consecutive year of record revenue at \$130.7 million. So, I'd like to start by acknowledging the entire inTEST team and expressing my sincere appreciation for their commitment to our strategy and their ongoing efforts across the globe. These efforts enabled the record revenue and strong operational results, further validating the effectiveness of our market and customer diversification strategy, as well as our focus on innovation.

Full year sales growth of 6% was driven by the \$25 million contribution from the Alfamation acquisition, as well as strong demand from our auto/EV, defense/aero and life sciences markets. The combination of the acquisition and higher demand in these targeted markets more than offset the measurable 26% decline we experienced in semi. We believe that delivering growth against such a severe headwind in semi is proof of the success of our strategy to

evolve inTEST into a more diversified test and process technology solutions business. In fact, it was our innovative test solutions that delivered growth in both auto/EV and defense/aerospace for the year.

Specifically, revenue growth in auto/EV was driven by the advanced testing technologies we acquired with Alfamation that are used in qualifying infotainment systems for vehicles. We also saw increased demand for the technology we offer for testing battery packs that are used in various end products, not just EVs. Our flying probe automated test systems are used in battery pack testing to support the megatrend of electrification of a broad variety of equipment, such as electric boats and drones.

Our systems are frequently preferred by customers, because they provide tremendous flexibility and market-leading test coverage, which increases quality assurance and throughput. In the fourth quarter, we received several repeat orders for these systems and we won back a customer who returned after trying a competitive solution. While the pipeline of opportunities for this technology entering 2025 is healthy, we are carefully monitoring customer spending, given the ever-changing tariff environment.

For the quarter, our year-over-year core business sales growth in defense/aero, semi back-end and life sciences more than offset the decline in industrials. We also benefited from approximately \$2 million in previously delayed shipments to life sciences, defense/aero and auto markets due to the logistic issues in the third quarter.

Record sales to the defense/aero market was driven by our innovative environmental and test technologies, which address the demanding requirements for these customers. Gross profit in the fourth quarter decreased sequentially, reflecting a \$1.6 million charge to cost of goods sold related to purchase price accounting for the Alfamation acquisition as well as mix. Duncan will provide more details on the inventory step-up charge shortly.

Let me now review orders and backlog on **slide 5**. Fourth quarter orders increased 11% year-over-year. Back-end semi continued to show signs of improvement, offsetting persistent weakness related to our silicon carbide, gallium nitride applications, in the front-end to drive a \$2.4 million increase in overall semi orders. The \$1.7 million increase in orders for auto/EV included \$1.1 million from Alfamation.

Demand in life sciences more than doubled to a record \$2.3 million and reflected sizable orders for our induction heating solutions in multiple medical applications. Sequentially, orders were up 9%, marking our third consecutive quarter of improvement, and with strength in semi and life sciences. Auto/EV demand slowed, reflecting continued softness in that end market.

While orders for defense/aero were down in the quarter, we continue to see strong interest for our solutions in this market. In the quarter, we received orders from multiple customers, including several prime defense contractors, commercial space companies and NASA. Backlog at the end of 2024 was \$39.5 million and included \$7.4 million from Alfamation. Backlog was \$600,000 lower from the prior year period and down \$6 million sequentially, reflecting the timing of Alfamation shipments.

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

Duncan Gilmour

CFO, Secretary & Treasurer, inTEST Corp.

Thank you, Nick. Starting on **slide 6**, as Nick noted, revenue for the fourth quarter was \$36.6 million, including \$8.5 million from Alfamation. The \$8.7 million increase compared with Q4 2023 was driven by \$7.9 million of growth in auto/EV, all from Alfamation; \$2.7 million of growth in defense/aerospace; and \$1.5 million of improved

sales in semi, as back-end improvement more than offset front-end weakness. Industrial sales were down \$3.7 million due to general market softness and project timing.

Sequentially, fourth quarter revenue increased \$6.3 million as auto/EV increased \$5.7 million, defense/aerospace was up \$1.9 million, and security improved \$0.3 million. It should also be noted that, as referenced on our third quarter conference call, the fourth quarter benefited from approximately \$2 million of shipments that were delayed out of the third quarter.

Moving to **slide 7**, in the fourth quarter, we refined and finalized the purchase price allocation for the Alfamation acquisition. Adjustments recorded included a \$1.6 million inventory step-up, which increases the cost of inventory acquired. This adjustment was made to reflect the fair value of work in process and finished goods as of the acquisition date. As the related inventory was sold in 2024, this increase was charged to cost of goods sold in the fourth quarter, which negatively impacted gross margin for the period. This is the \$1.6 million charge impacting gross profit and 430 basis point impact to gross margin that Nick noted earlier.

Fourth quarter gross profit of \$14.5 million increased \$0.5 million sequentially on higher revenue and improved operating efficiencies that more than offset the \$1.6 million charge. Compared with the prior year period, gross profit increased \$2.1 million. Including the 430 basis point impact, gross margin of 39.7% for the quarter contracted 660 basis points sequentially and 490 basis points year-over-year.

As you can see on **slide 8**, our operating expenses were \$12.5 million. Compared with the prior year, operating expenses were up \$1.1 million, reflecting the addition of Alfamation, which added \$1.5 million. Alfamation operating expenses benefited from an \$800,000 amortization credit in the current quarter. Overall, the increase in operating expenses were partially offset by cost reduction efforts and operational improvements in our core business. Compared with the trailing third quarter, operating expenses declined \$1.1 million as a result of the sequential reduction in amortization expense of \$800,000, as well as the impact of ongoing cost cutting actions and operational improvements.

Turning to **slide 9**, you can see our bottom line and adjusted EBITDA results. For the quarter, net earnings were \$1.5 million or \$0.12 per diluted share. Adjusted net earnings were \$2.8 million or \$0.23 per diluted share. Adjusted EPS reflects adding back the tax-effected impact of the inventory step-up and acquired intangible amortization charges. On an after-tax basis, these totaled approximately \$1.3 million or about \$0.11 per diluted share in the fourth quarter. Adjusted EBITDA for Q4 was \$4.4 million, representing a 12.1% adjusted EBITDA margin. For clarity, this is inclusive of adding back the \$1.6 million inventory step-up impact.

Slide 10 shows our capital structure and cash flow. During the quarter, we generated \$2.6 million of operating cash. Capital expenditures in the fourth quarter were approximately \$200,000 and the resultant free cash flow was \$2.4 million. We ended the quarter with total debt of \$15 million. This reflects a total debt leverage ratio of 1.4x. During the quarter, we repaid approximately \$1.1 million of debt. Cash and equivalents at the end of the fourth quarter were \$19.8 million, up \$1.8 million from the trailing quarter. We continue to have \$30 million available with our delayed draw term loan and an incremental \$10 million available under our revolver.

Turning to **slide 11**, we provide our outlook for 2025. Our outlook for 2025 is cautious, and we expect full year revenue to be approximately \$125 million to \$135 million, with profitability gradually improving throughout the year. Amortization expense for 2025 is expected to be \$3.4 million. Our effective tax rate for the year is expected to be approximately 18%. Capital expenditures for 2025 are planned to be approximately 1% to 2% of revenue.

For the first quarter, revenue is forecasted to be \$27 million to \$29 million, with gross margin of approximately 41% and operating expenses of \$13.6 million to \$14 million, reflecting the typically higher levels in the first quarter. This estimate excludes approximately \$200,000 of restructuring expenses related to Videology. Our

expectations for the quarter reflect recent customer pushouts of approximately \$3 million of orders and backlog to the latter half of the year.

We have also taken into account the slowing receipt of orders we are seeing due to the uncertainty in end markets as a result of recent and impending tariffs. As usual, our guidance does not include the potential impact from any non-operating expenses, such as corporate development and restructuring that may occur from time to time. Nor does it include the potential impact from any additional acquisitions we may make.

With that, if you will turn to **slide 12**, I will now turn the call back over to Nick.

Nick Grant

President & CEO, inTEST Corp.

Thanks, Duncan. As we closed 2024, we had solid momentum coming off a strong Q4 performance and our opportunity funnels were expanding. However, as Duncan just mentioned, the uncertainty related to the change in administration is now delaying customer investments. As to tariffs, we continue to assess the potential impact from both the supply chain, as well as market competitive position, even as this situation is rapidly changing.

We do have suppliers in Canada and China that support our US operations, but, for the most part, our supply chain is relatively localized around our manufacturing facilities. Because of the work we did during the supply chain disruption in 2022, we are in a better position and have alternate supply options. If we are not able to mitigate costs, we do expect to pass the increases on to our customers. We also think our competition is on the same playing field from a supply side perspective.

Our greater focus currently is the impact tariffs may have on market competitiveness for our businesses. Acculogic, which is based in Canada, has a large portion of their sales into the US. Our semi test equipment also is sold into China, and we are working with those customers to understand their mitigation strategies given they are global manufacturers. As more clarity is provided regarding the tariffs, including the length of time they'd be in effect and the other countries that may be impacted, we can better evaluate our market position. In the meantime, we are in close conversation with our customers.

The manufacturing build-out at our Malaysia facility is underway, and we plan to be producing products there by the end of the year. The in-the-region, for-the-region approach will save costs for both supply chain and logistics and should improve market competitiveness.

In addition, we recently announced our intention to consolidate our Videology Netherlands facility into our Mansfield, Massachusetts location, which houses our US Videology operation. This consolidation is intended to streamline operations to enable us to better serve customers while reducing cost. We are expecting approximately \$600,000 of restructuring charges to be recognized through 2025 associated with this consolidation. We also expect these actions will result in annualized savings of approximately \$500,000 beginning in 2026.

While our outlook is cautious for 2025, our sales teams are focused on the right markets and applications. We expect to continue to see gradual improvements in some of our back-end semi applications, along with increasing activity with defense/aerospace customers. Currently, the front-end semi market remains paused, and we expect it to remain so throughout the year.

We are confident that silicon carbide, gallium nitride and epitaxy applications, where our solutions are used, will provide longer term growth opportunities. We continually work to optimize our go-to-market channels to improve sales and expand geographic reach. In addition to expanding our Malaysia facility, we have added sales resources

and channel partners in Malaysia, Singapore and Vietnam. We also recently announced a new agreement with a channel partner in Japan.

Today, we announced that our board of directors has renewed our stock repurchase plan. This is a confirmation of our belief in the long-term value we are creating through innovation with solutions that solve our customers' most challenging problems. It is also a statement of our confidence in our expectations to continue to grow inTEST over time, as we deepen our reach into targeted markets, broaden our customer base and expand our geographic presence. On March 26, we will host a Strategy Briefing at the New York Stock Exchange, where we will present Vision 2030 and our strategy to achieve those long-term goals.

With that operator, let's open the line for questioning.

Question and Answer

Operator

Thank you. We'll now be conducting a question-and-answer session. [Operator Instructions] Our first question is coming from Jaeson Schmidt from Lake Street Capital Markets. Your line is now live.

Jaeson Schmidt

Thanks for taking my questions and congrats on the strong finish to the year. I just want to start, Nick, with some of your commentary regarding pushouts into the second half. Are you seeing any cancellations in your pipeline?

Nick Grant

Good morning, Jaeson, and thanks for the question. At this time, we aren't seeing cancellations. We have seen some customers kind of change one product over to a different product, to different, let's say, powered solution, if you will, but no cancellations. It's really just more of a timing issue.

Jaeson Schmidt

Okay. And then, looking at the life sciences business, there were some really strong orders in Q4. Was that driven by a couple of customers or was it really just broad-based?

Nick Grant

It was pretty broad-based. Our induction heating solutions were a big driver of that, and the team really focuses on opportunities in markets there, given the fall-off they've seen in that front-end semi. It's good to see the momentum we're gaining.

Jaeson Schmidt

Okay. And then, just the last one from me, and I'll jump back into queue. Looking at your annual guidance, when we think about potentially reaching the higher end of that range, would that really just be driven by a couple of customers or one particular end market, or to get to that range, is it more just broad-based improvement in the demand environment across the board?

Duncan Gilmour

On the high-end, as we mentioned, we have seen some large pushouts from Q1 that get delivered in the back half, so there's an element of backlog that we know will be delivered in that back half. Other than that, back-end has been showing pockets of improvement, so there's an element of continuing to see that. At this stage, front-end, as we've talked about before, the assumption is that doesn't really pick back up until really 2026 at this point. Broader industrial markets, we do feel are challenged right now, as people are trying to understand a little bit more from a tariff perspective, as we talked about, and just general market uncertainty, but we do anticipate, as things stabilize a little bit, those markets will improve as well as the year progresses.

Jaeson Schmidt

Okay. That's helpful. Thanks a lot, guys.

Operator

Thank you. Next question is coming from Ted Jackson from Northland Securities. Your line is now live.

Ted Jackson

Well, Duncan, you just answered my main question, which was on revenue, but I'll ask it a different way. When you go into the 2025 outlook, can you just provide a little more color with regards to cadence? And by cadence, I mean how you see the quarter progressing by kind of end market. You've kind of talked with regards to back-end semi being stronger, front-end being weaker, but maybe just a little more color; and then, maybe a weighting either kind of first half to second half. That would be my first question.

Duncan Gilmour

Sure. Obviously, with our Q1 guide and the full year numbers, there's a perspective that quarterly revenues increase during the course of 2025. As I referenced with respect to back-end in particular, we do see that stronger in the second half, given some of the delays we've seen, shipments being pushed to that back half. I would say other markets are a little tougher to discern pick-up in Q2 versus back half of the year.

As I said, I think, for Q1, we're certainly seeing a little bit of uncertainty out there across many of our markets, as people just try to get their arms around what's happening from a general economic perspective. I mean, the other big market that is a little softer that we've talked about and is important is the auto sector. That is a little bit slower for us. Again, there's a lot of uncertainty across that marketplace, which we do see as resolving and picking up towards the back end of the year.

Ted Jackson

Okay. And then, with all the uncertainty and just things going around, I mean, does this have any impact? I know you had a strategy of looking for acquisitions and stuff, so kind of an update on what's going on with regards to the M&A pipeline, and how active are you in it, particularly given the current environment. I could see part of it being something that might make more opportunity for you and also see it give you more caution with regards to pulling the trigger on anything. So, that'd be my second question.

Nick Grant

That's a good question, Ted. As you know, M&A is an important part of our strategy, and we are constantly working on building relationships with customers, identifying targets, and the teams are actively doing that out there. As noted, at certain times, companies are more attractive from a valuation perspective. At other times, they're a little too rich for our blood. So, I think, these kind of times makes it more favorable for us, and we just

want to be ready to be able to act if the right strategic opportunity presents itself. I think we're in a good position, and it's not like we're pausing M&A.

Ted Jackson

So, you're active in the market. It's just you're just playing it simple.

Nick Grant

Correct.

Ted Jackson

Then, my last thing is really just for Duncan. You put out some more color and breakdown with regards to your financials, where at least in the press release, you took, let's call it, your three segments - Electronic Test, Environment and Processing - and not just gave out the revenue, but gave some cost structures. Then, in the presentation, you provided some of that color historically, but you did not provide a gross margin view like you did in the press release. Is there any chance that we could get some historics that are in the structure of what's in the press release, because I'd like to restructure my model around that? That's not really a question, but it is a question.

Duncan Gilmour

I think we do provide the numbers to do that. We don't really manage our segments at the gross margin level, but really looking at that divisional operating income profitability, which is why, quite honestly, we're intentionally not. The information is provided. There is a new reporting requirement actually in our 10-K that requires us to break down those expenses in a little bit more detail, but as I said, we're not really managing our segments to gross margin. We're managing our segments to divisional operating income. So, I believe the elements are there, and we certainly can provide you the elements, but we're not going to publish them.

Ted Jackson

I understand what you would do, but if I want to flow my model down at those segment levels to get to that operating level, I would need the line items to do it or I really wouldn't be able to. That's all.

Duncan Gilmour

I think we're going to provide the numbers we're required to present for the segment reporting. That is where we are on that.

Ted Jackson

Okay. All right. Well, that's it from me. Thanks very much for taking my questions.

Nick Grant

Thanks, Ted.

Operator

Thank you. Next question is coming from Dick Ryan from Oak Ridge Financial. Your line is now live.

Dick Ryan

Thank you. Most of my questions have been answered, Nick and Duncan, but I have a question – not a question, just an observation. You have the Investor Day coming up, where you're going to give a view into 2030. Previously,

you had kind of a 2027 target out there of, whatever it was, \$200 million to \$250 million. When you look at the flattish guidance for 2025 and you consider the end markets, whether you have the right products for the end markets and your competitive position, is there any reason to back away from that aspirational 2027 goal or is that something that'll be discussed in the Investor Day?

Nick Grant

Good morning, Dick, and thanks for the question. Absolutely, we'll be discussing that on Investor Day later in March, March 26, but in general, we are not giving up on our targets that we laid out from our prior strategic plan – to try to get this business to north of \$200 million. We absolutely believe there's room in our served markets to do that. We have the ability to drive the right initiatives and generate the right level of cash from our businesses, which we've seen in certain quarters. It's a matter of getting some of these markets to cooperate with us, and that has really kind of kicked the can down the road a little bit here. We'll get a lot more into it on the 26th.

Dick Ryan

Great. Other than the tariff uncertainty, do you think you still have the product and competitive position that you're satisfied with? Obviously, you're going to be introducing new solutions and systems as we go forward, but is anything changing on your competitive landscape at this point?

Nick Grant

No, nothing at all. We are generating tremendous value-add for our customers with our expertise, know-how, and solving their challenges out there, so our competitive position remains extremely strong. As you noted, our innovation to stay a step or two steps ahead of the competition is a key part of our strategy as well. So, we like where we are.

Dick Ryan

Great. Thank you.

Operator

Thank you. We've reached the end of our question-and-answer session. I'd like to turn the floor back over for any closing comments.

Nick Grant

Thank you, Kevin. We appreciate everyone joining us today. Thank you for your time, and we welcome the opportunity to answer any further questions you may have. On **slide 13**, please note that, in addition to the details regarding the replay of this slide, we have our Investor & Analyst Strategy Briefing listed along with the link to register. I hope to see some of you all there. Thanks again for participating and have a great day.

Operator

Thank you. That does conclude today's teleconference. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.

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