

InTest Corporation

First Quarter Fiscal Year 2025

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

Jaeson Schmidt

Lake Street Capital Markets LLC, Research Division

Richard Ryan

The Oak Ridge Financial Services Group, Inc., Research Division

Ted Jackson

Northland Securities, Inc., Research Division

Presentation

Operator

Greetings and welcome to the InTest Corporation First Quarter 2025 Financial Results. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Shawn Southard, Investor Relation with InTest. Thank you. You may begin.

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 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 results to differ materially from what is stated here today. These risks, uncertainties and other factors are provided in the earnings release, as well as in other documents filed by the company with the Securities and Exchange Commission. These documents can be found on our website or at sec.gov.

Also, 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 first quarter 2025 earnings call. Q1 will be remembered by most as a quarter of shifting tariff policies, macroeconomic turmoil and market uncertainty. It has certainly created challenging times for global companies. In the quarter, InTest delivered \$26.6 million in revenue, with gross margins of 41.5%, while generating over \$5 million in cash and reducing debt by more than \$3 million to further strengthen our balance sheet. I would like to thank the entire InTest team for making that happen in a relatively difficult environment.

For the quarter, our sales were impacted by delays in customer spending, driven by the uncertainty as well as engineering challenges our team at our Environmental Technologies Division experienced on some complex temperature chambers and chillers, that we had expected would be resolved by quarter end. These engineering delays pushed approximately \$1.5 million of shipments out of the quarter.

On a year-over-year comparison, sales were primarily impacted by the headwinds in Semi and continued weakness in Industrial that we have been communicating for a few quarters now. Once again, we are benefiting from our efforts to diversify the company, to help mitigate the cyclicity in Semi. Sales to Auto/EV increased \$2 million, Life sciences increased \$1 million, and other markets grew \$1.3 million, which partially offset the year-over-year declines in Semi and Industrial.

Midway through the quarter, we took further steps to improve profitability. Given current market conditions, we have implemented tight cost controls, eliminated discretionary spending where appropriate, have restricted hiring and are also leveraging government programs across our various sites that supplement employee wages during reduced work periods. Our goal was to remain flexible, to respond quickly when market conditions improve. Encouragingly, we continued to gain traction with new products, added new customers and further enhanced our channels to market. As I mentioned, revenue was negatively impacted when approximately \$1.5 million of shipments at the end of the quarter were not fulfilled. Our team needed additional time, due to the complexity of some products, in order to ensure we met our high-quality standards that our customers have come to expect. These products are expected to ship in the coming weeks.

Clearly, market conditions remain tenuous, and the full ramifications of the global trade situation and its resulting impact to demand are not yet fully understood. During these times, we will lean into our strengths. We have leading market positions with customers, strong presence in our target markets, industry leading applications and innovative new products. Therefore, we believe we are well-positioned for when markets do recover.

Please turn to **Slide 5**. Regarding tariffs, while not immune to whatever the outcome may be, we believe we are fairly well insulated from direct impacts on our supply chain and sales. Our supply chain is mostly localized around our production sites and our efforts to overcome the supply chain challenges post-COVID has allowed us to develop alternate suppliers when needed. In addition, our efforts to expand our presence globally position us well in the long-term for an “in the region, for the region” manufacturing strategy, which should provide a cushion for tariff shocks.

We are assessing tariffs from two perspectives, from a supply chain impact as well as from a market competitiveness impact on sales. From the supply side, as shown on the chart, nearly three-fourths of our material spend is not directly impacted by additional tariffs currently. Our US businesses only purchased approximately \$1.5 million of products directly from China last year, which was less than 3% of our total spend. Our teams have been working diligently to mitigate tariff impacts with these products through alternate supply sources. We do source approximately 20% of our spend with suppliers outside of the US, excluding China, which today is subject to the 10% tariff baseline increase.

Some suppliers have passed these costs on to us, while others have not. Our businesses have already implemented tariff surcharges on quotes or have raised prices as a result. Ultimately, we expect that

any incremental costs we are unable to mitigate will be passed along to customers, given the high value nature of our products.

On the revenue front, we have looked at where we may be impacted from our products being shipped into the US as well as where we may be affected with the reciprocal tariffs shipping products out of the US. As shown on the chart, over half of our sales are either associated with products made in the US and sold to US customers, or are products sold to global customers from our international sites, which are not currently impacted by tariffs. With the USMCA exemptions currently effective under the tariffs, our shipments from Canada into the US for the most part, will not be impacted either.

Where we do have known exposure is on our shipments from Italy into the US, which last year amounted to approximately \$6 million in sales and are currently subject to the increased 10% baseline tariff in place. Our biggest exposure is on what we ship directly to China from the US, which amounted to approximately \$14 million in sales last year. The vast majority of these sales are to large US or European multinational companies who have global manufacturing strategies. We are working closely with these customers to support them on any changes they implement to their manufacturing strategies.

We also expect to be more flexible on that front as we begin production in our facility in Malaysia later this year. The balance of our sales, approximately \$40 million, are to customers around the world from our US factories that could be subject to reciprocal tariffs at some point should they materialize. We are optimistic that trade deals will be worked out to prevent this from happening and, depending on the deals, could even result in us being more competitive in certain parts of the world. Thinking longer term, we believe we are well positioned to support our customers globally with a sizable manufacturing footprint in Europe and the addition of manufacturing in Malaysia.

Let me now review orders and backlog on **Slide 6**. While sluggish, first quarter orders increased 11% year-over-year. Demand in Industrial grew 47% to \$4.6 million, driven by a \$1.5 million order from a returning customer. Auto/EV demand increased 25% to \$5.1 million, primarily from Alfamation. Safety/Security and Life Sciences also reported year-over-year increases in orders. Sequentially, orders were down 17% from a solid fourth quarter. Semi orders declined \$6 million as demand was tempered in our Electronic Test Division. Defense/Aero and Life Sciences also reported lower demand of \$1.8 million and \$1.1 million, respectively. Although Defense/Aero demand is down, our pipeline is robust while this market tends to be lumpy from quarter-to-quarter.

Currently, our next generation solutions are performing well in test with our defense customers. To help partially offset those declines, Industrial orders increased \$2.1 million, Auto/EV grew \$1.6 million and Safety/Security also reported a sequential increase. Importantly, our funnel of opportunities is at an all-time high as customers have CapEx spending plans which call for our solutions. When the global trade environment settles down, allowing economic progress to continue, we believe we are in a good spot to benefit.

Backlog at March 31 was \$38.2 million, which includes \$5.8 million from Alfamation. Excluding Alfamation, backlog over the last five quarters has remained relatively stable between \$30 million and

\$33 million. Backlog was \$17.2 million lower from the prior-year period and down \$1.3 million sequentially as we bled down the sizable backlog we acquired with Alfamation.

With that, let me 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 7**, as Nick noted, revenue for the first quarter was \$26.6 million. Revenue was down \$3.2 million compared with Q1 2024 as a \$4.3 million aggregate increase in sales to the Auto/EV, Life Sciences and other markets partially offset a \$6 million reduction in Semi and \$1.2 million decline in the Industrial market. Sequentially, while sales to Industrial, Life Sciences and other markets increased in the first quarter compared with the trailing fourth quarter, it was not enough to offset the \$11.9 million decline in sales related to lower Semi, Auto/EV, Defense/Aero and Safety/Security sales volume. Total revenue was sequentially down \$10 million.

Moving to **Slide 8**, first quarter gross profit of \$11.1 million decreased \$2 million on lower year-over-year sales volume and unfavorable mix. Sequentially, gross profit declined \$3.4 million on the \$10 million of lower sales volume. Q1 2025 gross margin of 41.5% represents a 230 basis point tightening compared with the prior year period, primarily due to lower fixed cost absorption and less favorable mix. On a sequential basis, gross margin improved 180 basis points as the trailing fourth quarter had been negatively impacted by a 430 basis point inventory step up charge.

As you can see on **Slide 9**, operating expenses were up \$1.3 million year-over-year at \$13.9 million. Q1 2025 includes \$300,000 in restructuring costs and \$1.3 million of incremental operating expenses related to Alfamation, which was acquired on March 12, 2024. Sequentially, operating expenses increased \$1.5 million. Fourth quarter of 2024 benefited from an \$800,000 amortization credit while Q1 spending included typically higher first quarter benefit costs, as well as the aforementioned \$300,000 restructuring charge.

We continue to implement a series of cost saving actions to improve our long-term profitability. The previously announced consolidation of our Videology Netherlands facility, which we estimate will translate into annualized savings of approximately \$500,000 beginning in 2026, remains on track. In addition, as Nick mentioned, we further reduced head count during Q1 and employed austerity measures versus our budgeted 2025 spend. As a result of these ongoing initiatives, we expect Q2 operating expenses, excluding restructuring costs, to run approximately \$300,000 below Q1.

Turning to **Slide 10**, you can see our bottom line and adjusted EBITDA results. For the quarter, net loss was \$2.3 million or a loss of \$0.19 per diluted share. Adjusted net loss was \$1.4 million or a loss of \$0.11 per diluted share. Adjusted EPS reflects adding back acquired intangible amortization charges and restructuring costs. Adjusted EBITDA for Q1 was negative \$900,000.

Slide 11 shows our capital structure and cash flow. We continue to demonstrate the inherent cash generation strength of the business. During the quarter, we generated \$5.5 million of cash from

operations. Capital expenditures in the fourth quarter were approximately \$200,000, and the resultant free cash flow was \$5.3 million.

We have a total debt leverage ratio of 1.5X, even given the decline in EBITDA. Total debt was \$11.8 million at quarter end. During the quarter, we repaid approximately \$3.2 million of debt. Cash and equivalents at the end of the first quarter were \$22 million, up 11% or \$2.2 million from the trailing quarter. We have more than sufficient liquidity given our cash position and the \$30 million available with our delayed draw term loan and an incremental \$10 million available under our revolver.

Turning to **Slide 12**. As Nick mentioned, while we believe our plans can deliver, given the significant uncertainty resulting from the global trade environment that makes the second half less predictable and the inability to understand the domino effect the tariffs could generate, we are focusing our guidance on the forward quarter where we have more clear visibility. For the second quarter, revenue is forecasted to be \$27 million to \$29 million, with gross margin of approximately 42% and operating expenses of \$13 million to \$13.5 million, excluding approximately \$200,000 of restructuring expenses. This guidance reflects the slowing receipts of orders and customer shipment delays we are seeing due to tariff and the resultant general economic uncertainty.

Amortization and interest expense are projected to be consistent with Q1. As usual, our guidance does not include the potential impact from any non-operating expenses, such as corporate development and incremental restructuring that may occur, nor does it include the potential impact from any additional acquisitions we may make. To reiterate, we are confident in the long-term fundamentals of our business and in our market position. Our customer pipeline is at the highest level in the history of our company. While we expect sequential improvement in top line and profitability through the year, our visibility into the timing of orders and shipments remains limited at this point.

With that, if you'll turn to **Slide 13**. I will now turn the call back over to Nick.

Nick Grant

President & CEO, InTest Corp.

Thanks, Duncan. As we have discussed, geopolitical tensions and trade policy volatility, driven primarily by the uncertainty surrounding tariffs, have combined to create a challenging backdrop. During these uncertain times, we are leaning into our strengths. We have built a strong foundation on which we are benefiting from our market diversification, innovation and investment in regional manufacturing facilities. We continue to manage cost while remaining sufficiently agile to address our increasing funnel of opportunities. As we have noted, our opportunity funnel is at a historic peak, which provides optimism on what's on the other side; however, given the turmoil associated with tariffs and the uncertainty that it creates, customers are currently reevaluating the timing of their capital projects and shipment delivery schedules. We will continue to work with customers to provide the solutions they need when they need them.

Innovation is a core part of our strategy, and now our operating system. During the first quarter, new products represented sales of \$4.5 million, which was approximately 17% of our total sales. As mentioned at our Investor Day last month, our Vision 2030 goal is to get this to 25% in the coming years,

which we are well on our way towards. Our geographic expansion actions to build sales, engineering and manufacturing in Southeast Asia are progressing well. Specifically, plans to begin manufacturing in our new Malaysian facility during the second half of 2025 are on schedule and we believe that this will enable us to better serve that region. The “in the region for the region” approach is expected to reduce costs from both the supply chain and logistics perspective and should improve our market competitiveness. We have a healthy balance sheet and believe we have sufficient liquidity to manage whatever challenges the future may hold. Regardless of market conditions, we remain confident in our plans for long-term growth. We are executing our Vision 2030 growth strategy, which focuses on driving innovation and further geographic expansion to create greater scale while increasing our focus on operational excellence.

With that, operator, let's open the lines for questions.

Question and Answer

Operator

Thank you. We will now conduct a question-and-answer session. [Operator Instructions] One moment while we poll for our first question. Our first question comes from Jaeson Schmidt with Lake Street Capital. Please proceed.

Jaeson Schmidt

Thanks for taking my questions. Understanding the dynamics in Q1 with that order pushout, I'm just curious about when things started to change and when visibility got a little cloudier in the second half, just given that it sounded, at your Analyst Day at the end of March, that, with the reaffirmation of full year guidance, things seemed to be on track. I'm just curious about when things started to take a turn.

Nick Grant

Hi, Jaeson. I would say, on the order front, we really started to see that customer book ship business slowdown in the mid-quarter, which allowed us to cushion our guidance to what we thought was achievable in that \$27 million to \$29 million, and we would have been right in that guidance had we not had these engineering challenges that fell out of the quarter. But I would say mid-quarter is the slowdown in orders that we started to see. The pushouts we had known about relatively mid-quarter as well when they delayed and pushed into the second half of the year from a number of our larger customers. So, the biggest miss was just late, I'd say, performance from our engineering group that was unable to deliver.

Jaeson Schmidt

That's helpful. And then, I know you're not guiding for the full year anymore, but when we think about the potential swing factor, either positive or negative, is it primarily the Semi space just given your exposure there and the volatility of that segment or are there other end markets that could be the swing factors?

Nick Grant

I would say Semi and Auto/EV are the biggest potential swing factors here, and our pipeline is very healthy on a number of projects for both industries. We're optimistic that customers will get comfortable with where tariffs are heading and these things will get kicked off and we're back on track. As you know, last year, we had three quarters of improving orders and improving market conditions in Semi, particularly in the back-end. Our front-end had been paused and is still slow today, but the back-end was recovering, and we anticipate that will kick back off.

Jaeson Schmidt

Okay, that makes sense. And then, just the last one from me and I'll jump back into queue. With all the cost cutting initiatives and sort of rightsizing the model today, how should we think about the breakeven quarterly revenue level now with this same cost structure?

Duncan Gilmour

Let me let me take that, Jaeson. So, you can see where we landed in Q1, \$26.6 million of revenue and you can see the bottom line there, revenue contribution of the business is strong. We are, as we talked about, looking to reduce spending, hopefully temporarily. We do see the year improving through Q3, Q4 as we indicate, even though we're just pointing to Q2, but we are being careful with our spending. If you look at the Q2 numbers we've thrown out there, we do expect revenue in that \$27 million to \$29 million range, taking some cost out. If you do the math on that, then it's getting closer to breakeven, but not quite if you just take the midpoint of some of those numbers. I think you can calibrate it from there. We're bringing that point down. I think I talked in the past about \$30 million plus or minus is a typical breakeven point, and I'd say we're bringing that down a hair, again, if you look at the numbers that we're projecting.

Jaeson Schmidt

Okay. Perfect. Thanks a lot.

Operator

The next question comes from Dick Ryan with Oak Ridge Financial. Please proceed.

Dick Ryan

Thank you. Nick, I appreciate the details on the tariff discussion. I think that helps a lot. So, I want to focus on the Industrial. I'm trying to square that circle. You had a nice quarter for Industrial, and then, you mentioned the \$1.5 million order from a returning customer. I think that was in induction heating, and if that's so, what industry segment is that and what brought him back to you?

Nick Grant

Good morning, Dick. We really wanted to make sure we tried to frame up our tariff exposure, and I'm so glad you appreciated that. Regarding Industrial, that \$1.5 million order is in our Industrial numbers. It's really more so utility space. In fact, at Investor Day, we kind of highlighted the utility poles, that the induction heating systems do support these utility poles that are manufactured and distributed all

around the US and around the globe. That customer came back and expanded their capacity at a new site and placed that larger order for additional induction heating systems.

Dick Ryan

Okay. How do they utilize the induction heating? I guess I'm not clear on that.

Nick Grant

So, these large utility poles, steel poles, they'll heat the poles to pre-condition the welds for the base of these poles. So, these are like a pre-treatment around the utility poles, which provides improved quality as well as increased yields for it for that specific customer.

Dick Ryan

Okay. I appreciate that. So, on your engineering delays, was that some new product introductions or existing products, and was it for new or existing customers?

Nick Grant

These were new products as we've communicated. We take on challenges that others struggle with, and these are pretty complex chillers and chambers, some existing customers, some new customers. Multiple systems got delayed out of the quarter, largely because the engineers were working on a couple that were more challenging and didn't get a chance to finish the work on the others, so they slipped out of the quarter. But, we anticipate that all of those units will have shipped in the next couple of weeks, so the issue is resolved and the products on the way to the customers.

Dick Ryan

Okay. And Duncan, you mentioned the customer pipeline at record levels or near record levels. Is there any way to quantify that, to give us a sense of how big is big?

Duncan Gilmour

We typically don't project order numbers, final numbers. What we're really pointing to there is our opportunity funnel, looking at the quote activity, looking at the opportunities across our businesses that we're looking at. As Nick has said, I think it's the highest the company has seen in its history. I don't think we're going to throw particular numbers out there, but we do feel good about how robust that is looking.

Dick Ryan

All right. Thank you.

Operator

The next question comes from Ted Jackson with Northland Securities. Please proceed.

Ted Jackson

Good morning. I actually don't have any questions. Every one of mine got checked off in the last few rounds. But actually, in your financials, you made some restructuring with regards to the balance sheet and the cash flow. And then, I know because of some requirements, you provided some additional disclosure with regards to segment

data. So, I guess my question is, one, can we get maybe the last year of that segment data disclosure so we could do a little more restructuring of our models? And then, two, is there any chance that you have the same with regards to the restructuring of how you are reporting your balance sheet and cash flows so I can get my model fully booked? Thanks.

Duncan Gilmour

Obviously those numbers will fill in as the year progresses. I think you're talking about how it collapsed a couple of categories in the cash flow, the balance sheet as presented there. We're just tidying up some of the reporting that will fill out as the year progresses. Let me take that away. Maybe we can provide what that looks like to help you out. As I said, obviously, it will fill out as the year progresses, but let me just take that under consideration, Ted, in terms of what we can share here.

Ted Jackson

I have all those things, like those statements, all linked together and they flow, so this will be helpful for me to be able to kind of restructure it to re-tie my cash flow. I have no other questions with regards to the operations. I think you did a really nice job with presentation. And again, I commend you for the effort around the tariffs. I've been on dozens of calls this week, and that was actually one of the better breakdowns I've seen from any of the companies.

Operator

Thank you. At this time, I would like to turn the floor back to Nick Grant for closing remarks.

Nick Grant

Thank you, Vitonia. 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 14**, please note that, in addition to the details regarding the replay of this call, we will be virtually participating in the Northland Growth Conference on June 25. I hope some of you can join us. Thanks again for participating today and have a nice day.

Operator

Thank you. This does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a great day.

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.