Quinn Bolton: Welcome everybody to the second day of the 24th Annual Needham Growth Conference. My name is Quinn Bolton. I'm the semiconductor and semiconductor capital equipment analyst for Needham.

It's my pleasure to introduce inTEST Corporation. inTEST is a global supplier of innovative test and process solutions for use in manufacturing and testing services across a wide range of markets, including automotive, aerospace and defense, industrial, life science, semiconductor, and telecommunications. Joining me from the company are Nick Grant, President and CEO, and Duncan Gilmour, CFO and Treasurer. Nick and Duncan, thank you very much for joining us.

Nick Grant: We're pleased to be part of the conference, and thanks everyone for your interest in inTEST. I'll just run through the deck quickly and then we can answer some questions. I'll just point out some forward-looking statement, comments and non-financial GAAP measure statements here.

What makes inTEST different from others out there? inTEST is a 40-year-old company, with a track record of identifying and integrating attractive, accretive acquisitions. Prior management did this at a pace about one every four, five years. You will notice, if you've been following inTEST, under the new management, and myself and Duncan, we have accelerated that pace and are pleased to say we were able to get three deals done in 2021.

inTEST, as Quinn indicated, is known as an innovative solution provider of test and process technologies. We play in a space that's highly valued by the customer, one where we solve problems that others can't out there. We have a very large and well-established customer base and we are a diversified company, serving a number of markets.

In late 2020, inside sales in the semiconductor segment was 50%, while 50% were outside. Last year, with the strength in semi, we saw that number move closer to two thirds one third while our other non-semi markets grew as well.

InTEST is well established, and because we're in that high value space, we have attractive margins that we can command from the customers while delivering consistent cash flows.

I joined inTEST in 2020, and I have a history of delivering growth and success for a number of large multinational companies like ABB, AMETEK and Emerson, where I held a number of roles, including leadership roles. I am really a technology guy. I have an undergraduate degree in physics and I got my MBA after a few years working, and I have been gravitating toward the business side of things. Duncan, a little bit about your background.

Duncan Gilmour: I've been with inTEST for just over six months. I came from ABB, where I worked with Nick for a few years. I was with ABB for about four years. Prior to that, I spent 13 years working in various finance roles within Tyco, mainly operational finance, but also a few corporate finance roles. Before that, I spent 10 or so years in public accounting.

Nick Grant: Great, thanks Duncan. When I joined the company in 2020, the Board and I had talked and really were well aligned on what we wanted to do with this business, which has untapped the potential at inTEST.

inTEST is a well-established company, but it has struggled to grow, driven very much by a conservative family-owned company mentality. We have focused on developing and executing a strategy at inTEST that takes this business to the next level, which kicked off in January 2021. We made tremendous progress last year on our strategy, which I'll touch on here.

Our vision for the company is to be the supplier of choice for innovative test and process technology solutions. This is where we're focused and this is where we're playing with our products and solutions offerings. We achieve this by leveraging our deep industry knowledge and expertise to develop these high valued, high quality, innovative solutions for customers. With a proven track record success, the opportunity for us is developing solutions that are much more applicable across a broader customer base versus just individual customers. The company originated in semiconductors, selling into end users as well as to the ATE equipment suppliers. Over time, the company has diversified outside of semi through acquisitions, primarily into numerous other markets, including automotive, defense, life sciences and general industrial markets.

I have touched on the value-add portion of the company or the focus of the company, which is to solve the problems others cannot, whether it's thermal problems, mechanical problems or electronic challenges. Through our acquisitions and product developments, we've expanded this into a number of applications and test solutions as listed and shown on that page there.

We are a global company, with about half of our sales this year ending up in Asia, 20% in Europe and the balance in the Americas; however, while we're a global company, we are very much a North American-centric manufacturing company. Our manufacturing sites are located primarily in the U.S., the Northeast and New York, Massachusetts, New Jersey and, with the acquisitions, we've added Toronto and Connecticut. We did also pick up some additional capabilities in Germany and in the Netherlands with these acquisitions. We are starting to expand our footprint outside of the U.S.; we do have sales and service offices around the globe, also accompanied by over 40 channel partners to help get our solutions to markets out there.

This is a snapshot of some of our blue-chip customer base, well-known companies that have been with inTEST for years.

I talked about the strategy, so this is where I want to spend a little bit of time. This is where my focus has been over the last 16, 18 months, which is moving this company from a conservatively run business to more of a growth-oriented company. The management team and I laid out the five areas that we're focused on to deliver this growth and achieve global and market expansion.

I talked a little bit about our operations today and how they are very much North American; how we better serve our customers globally; how we are getting a more regional footprint; and adding more operations, service and support in regions to better serve the customers, drive greater satisfactions, and drive topline growth. We're also focusing on targeted growth areas like life sciences, electric vehicles, and cannabis. These are areas where we have solutions that we've developed that we believe are executing on driving good growth traction. Some of our acquisitions are also expanding into new markets for us, which I'll touch on here briefly.

Innovation is also a key focus of our growth strategy. This is something that the company did well early on. When it began, it had a number of patents and licensing arrangements with several companies. Over time, those patents expired and the company lost its focus. This is something that I've reinstalled and reinvigorated into the businesses by developing robust product roadmaps that are new to the business, new to the industry, new to the world and new to the customers in the markets where we're playing.

Talk, Talent and Culture is a key aspect of our growth strategy and that entails ensuring we have the right people in the right seat on the bus. This is an area I've spent quite a bit of time on this past year by bringing in talent like Duncan, who joined in June of last year, and a new leader for our M&A activities in Q4 of last year, along with various upgrades across the company over the past 16 months, so we are pleased about that. Changing this culture was in question. I wasn't sure how well the culture would respond to driving for growth and being more risk taking versus risk adverse, but I am really pleased about how the organization has embraced the forward strategy and the actions we're executing here. It's great to see the progress we're making on that front.

Lastly, strategic acquisitions and partnerships are one of our four of five strategies. This is also an area where we have made great progress this past year by completing three deals all done in Q4. The first was a make versus buy decision. I challenged our inTEST Thermal business to leverage their industry knowhow and expertise around ultra-cultural test capabilities where we achieved -80 to - 90C for testing applications. We looked at how we could leverage that and use it in the fast-growing vaccine storage, vaccine transportation space. They looked at developing solutions internally, but also at companies out there that could get us a quicker entry into this market and allow us to pick up a portfolio that we could work with to drive better solutions. We came across a company called Z-Sciences, a company that has a nice portfolio, but was lacking the financial backing to really scale this business.

We closed the deal with Z-Sciences in early October of last year and we are really excited about having them as part of our inTEST Thermal Solutions business. This opens life science spaces and technologies that we did not have in our portfolio, like freezers and refrigerators serving the pharma – biopharma space. They have an attractive product portfolio, attractive markets, faster growth and are sizable in a space estimated to be about $200 million. We're looking forward to seeing how that business grows within inTEST.

The second deal that we completed was a company called Videology, which is a company that expands our process technologies capabilities through innovative test and process solutions. We acquired a company in 2017 called Ambrell, which is the cornerstone of our process technologies business. It is induction heating, which is a technology used in a wide variety of applications and industries anywhere there's a furnace or a burner flame welding free. We wanted to build out around that and add additional automation capabilities. Image capture is one that we targeted as the technology that would complement the solutions they're providing, but also could be leveraged into other areas. Test ultimately opens nice attractive growth areas for us outside of our core spaces today. Videology Imaging Solutions, the acquisition we closed towards the end of October, is a roughly $10 million revenue business that we added into the company, expanding our footprint with the European operation and adding some nice technologies that we can leverage.

The last acquisition we closed at the end of December was Acculogic, which is an expansion of our electronic test platform, opening new markets and providing the diversifications for our electronic test capabilities beyond the semi markets and EMS space that we played in. Now, we've moved beyond semi into defense, aerospace, life sciences, electric vehicles, battery testing capabilities and systems. Acculogic strengthens our already strong presence in the electric vehicle market and now adds more test capabilities that we can provide. It's around a $9 million, $10 million company, headquartered out of Canada, with a footprint expansion into Germany for us. Both deals, Acculogic and Videology, are expected to be accretive to us in 2022. We're excited about these three companies being part of inTEST.

Duncan Gilmour: The Q3 financials here are all before the three acquisitions that Nick highlighted, which all closed in Q4. Revenue has been ticking along in the $20 million range loss over a couple of quarters. You can see that the semi component of our revenues has grown significantly in a year-over-year comparison, not far off 100% versus Q3 of last year. Also, nice to see, sequentially and Q3, our multi-market revenues grew nicely in Q3 versus Q2, reflecting a broad-based recovery across the industrial sectors. We are also starting to see some benefits from tradeshows, which are opening back up again. They may be temporarily holding a little bit as of right now, but it's certainly nice to see that live contact happening again in Q3 and Q4.

On the semi side, although we saw some softening in Q3 versus Q2, we continue to see strong demand for our semiconductor-based products, which look good across that sector, both on the backend and frontend across our different product lines.

Gross profit margins across our businesses showed a little bit of a drop in Q3, reflective of a slight shift in mix, as well as some of the supply chain challenges that we've been fighting and the rising of some material costs. We are constantly chasing our pricing initiatives to make sure we stay on top of that. Overall, we are happy with the overall profitability across different product lines.

If we look at operating expenses, we have been managing costs effectively. While we have been growing very nicely over the last 12 to 15 months, we've been making sure we have been investing for ongoing growth and looking to maintain our operating expenses. As we continue to grow, we will be looking to invest to support our five-point strategy.

From an income perspective, our EPS Q3 came in on a GAAP basis around $0.20, with non-GAAP around $0.23. That $0.03 delta is really just reflective of intangible amortization. That was right in line with our guidance on EBITDA or adjusted EBITDA; our adjusted EBITDA does add back our non-cash stock compensation charges. We were in the $3 million to $4 million range in the last two or three quarters. That's reflective of the strong cash generation we've seen across the business.

When we look at our cash performance on the next slide, we showed nice operational cash flow and nice free cash flow numbers during most of 2021, generating just over $4 million in Q3 and just over $10 million, or $8 million year-to-date, with just under $19 million of cash as of the end of the quarter.

We did enter into a new five-year credit agreement in early October 2021, a delayed draw down facility for $25 million. We leveraged that facility for the Acculogic and Videology acquisitions, which took place in Q4. Previously, there was no debt on the balance sheet. We've now drawn down $20 million against that facility to finance those two acquisitions. Given the low cost of debt right now, it didn't make sense to have zero leverage. We're starting to see, what we believe, is a more appropriate capital structure in place as we move forward.

You can see very strong growth in the semiconductor business in 2021, with a little bit of moderation coming into Q3. On the capital equipment side, many of our customers are digesting what they purchased, waiting for other elements to come into complete production lines and so on, but we fully expect capital budgets to open up and show continued strength within our semiconductor business.

In the multi-market side, we did see some nice new orders in our targeted electric vehicle and cannabis markets, though the cost is still relatively small at this stage, but both markets show great growth potential looking forward. From a backlog perspective, we exited Q3 with around $20 million of backlog, with about three quarters of that expected to turn in Q4.

Nick Grant: Hopefully, you get the message here for us. It's a new management team; it's a new company; it's a new approach; we're focused heavily on profitable growth; and we're excited about the new acquisitions. We have the company now focused on integrating them - working on and driving innovation and differentiation. Our new product development efforts are progressing.

Our sales and market expansions are driving a solid pipeline of new customer opportunities, so we're excited about the future and what you see here. Our fourth quarter guidance was provided on our November earnings call and is also provided here. Just to note that guidance does not include the impact of the Acculogic acquisition, which came later.

That's the inTEST story…an attractive company, with accretive acquisitions, high value partner offerings to innovative test and process solutions, a blue-chip customers portfolio, operations in diversified markets, and a strong balance sheet and margin profile cash flow generation.

So let me end it there and open it up for questions if we have any.

Quinn Bolton: My first question, for clarification before other questions, regarding the Z-Sciences trailing 12-month revenue or revenue expectations, where did that fall out?

Duncan Gilmour: Z-Sciences is basically a small bolt-on, low single digit, minimal revenue stream, with respect to that particular technology, with a $0.5 million purchase price for that deal.

Quinn Bolton: As I look at the consensus forecast, trying to reconcile those, it looks like you'll do about $85 million of revenue in 2021 at the midpoint of guidance. The Street's looking for about

$107 million right now. If I just take the Videology and the Acculogic trailing 12-month revenue combined, that's about $20 million. If I add that to what you did in 2021, I'm right there at the consensus assessments for 2022. I'm wondering, do the 2022 estimates, just not yet include the recent acquisitions, or is the core business not showing a lot of growth this year?

Nick Grant: What the analysts have done is, they feel the supply chain challenges are going to continue into next year and limit the ability to grow that base business beyond what we were able to achieve this year. Obviously, we have plans to go above and beyond what they're forecasting on that side of things there, but that's what I believe they built into their models.

Quinn Bolton: So, it's sort of conservative assumptions on the core business, reflecting supply chain and then adding in the recent acquisitions.

Duncan Gilmour: I think that's fair. There is also just, historically, a little bit of sensitivity around the semiconductor capital equipment market in particular. There's a degree of risk built into that number. We think it does look strong and, as we continue to look out, perhaps that volatility does lesson versus what we have seen in the past. There's an element of that baked into some of the numbers as well.

Quinn Bolton: In some of the more back-end and front-end companies that Needham follows, whether it's Cohu on the handler side or Kulicke and Soffa on the port wire bonding side, I think we saw a very strong 2021. It looks like your business saw that same surge, but then perhaps a moderation in 2022.

My question is, does this semiconductor business tend to be more driven by growth in IC units every year, so that, if unit growth isn't accelerating, you can see that business slow down? If unit growth is just flat year-to-year, does that mean that the core semi business typically sees a decline if IC units are just flat year-to-year?

Nick Grant: Because we are in front end semi, we go all the way up in the front end on the silicon crystal growth side, up there with our induction heating system solutions, and that demands the material requirements as more and more chips are required and really feeds how much of that volume we're going to see on that front end. We do expect that to be quite strong in 2022. The backend test side of it is more about capacity expansion and new product introductions, where they need a new interface or a change over a test head more frequently as they make changes to their production runs, et cetera. So, that drives demand for us on the back-end side.

We also have thermal test capabilities that are used more often in the semi lab R&D side as well. Within semi, we're diversified. As we see capacity expansions possibly slow, now that they've added all this capacity, they need material. We will see a pickup over on that side of our semi business. The R&D is more stable as they continue to develop new products and new modifications to their lines out there.

Quinn Bolton: Are thermal systems for ATE used to either heat or cool the device under test? Are you selling thermal systems to the folks like Teradyne and Advantest or Cohu or are you selling in different areas within the ATE segment?

Nick Grant: We do sell into some of those areas, but we also play in the chucks and the labs, and then, development chambers, whether they're testing the quality of the products up and down or life cycle testing.

Quinn Bolton: Moving to the non-semi applications, what are you most excited about? What's growing fastest outside of semiconductors in 2022 or 2023?

Nick Grant: Electric vehicles is a market that we're excited about. It started years ago, probably three or four years ago, with the leader in this electric vehicle space, where we started to develop induction heating solutions used in electric motors for the vehicles; then it went to breaking, then steering and then battery cooling, so we have a wide variety of solutions in the production of the electric vehicles out there and the components that go into them.

Now, with the Acculogic acquisition, we have added additional capabilities for the electric vehicle market and the battery testing. They have some solutions and some patents that are pretty unique. Because their technology is free floating and has full variable angle measurement capabilities, they can go in and measure cell blocks in a fashion that others cannot that gives them an attractive value proposition for electric vehicle testing markets.

The life science plays that Videology brings for us is an area where we see leveraging our technology and knowhow is an area that will position us well going forward, so we're excited about the entry into that. Of course, in that life sciences and derivatives, cannabis is more in the CBD, THC, oils extraction process. We develop chillers that are leveraging ultra-cold temperatures for the cooling of the fluids for the extraction, which gives them a higher yield and a better quality product. We're excited, as that market continues to boom for us, that around the globe, it should drive more volume for us.

Quinn Bolton: On the Acculogic side and EV battery tests, does Acculogic have design wins, where they're the incumbent or tool of record at either major battery manufacturers or maybe some of the startup battery manufacturers, that, as EV battery production grows, they ride that wave or are they still mostly still in a design win, design engagement sort of phase with their solutions?

Nick Grant: They, like our Ambrell, got in early also in that 2017 – 2016 timeframe with the leader in the electric vehicle market who happens to manufacture their own batteries through a partnership. They are the incumbent at that company, which our Ambrell provides as well. We have a deeper relationship now with the leader in the electric vehicle space. Where the real opportunity lies is doing more with all the other battery manufacturers in this space. Because of the size of the business and the resources they had, they focus really on supporting that one customer. As individuals left that company and went to others in the industry, they got pulled in rather than proactively going out and marketing the product. We see that as the opportunity at inTEST, to make investments to market these solutions and go after the broader battery market for these types of solutions.

Quinn Bolton: With a couple minutes left, I wanted to ask, what are you seeing in the supply chain both in terms of constraints and COVID-related effects on your components supply? And a related question, are you seeing rising input costs and are you able to pass those higher input costs on to customers?

Duncan Gilmour: We are seeing rising field costs. That's been a continual churn over the last number of months, and we're always striving to price up to cover that a little bit. It is a little bit of a game of whack-a-mole at times, because things are moving so quickly there, and we fully expect that to continue in the short-term. We are certainly going to task in our operations to make sure we are staying on top of that and maintaining a margin while driving price there. Given the supply chain side, we've been impacted, everyone's been impacted, and we certainly have seen these kinds of shipments push out from a logistics standpoint. I would say, though, that we haven't been as impacted perhaps as some of the bigger global players. We are relatively a regional manufacturer in the Northeast. Most of our supply base is relatively regional, which has made it "easier to manage" versus having very extended supply chains, but we still had challenges.

It may still be very challenging for the teams to keep up. You only need one component to be missing to delay an entire production run or shipment. I would characterize the impacts as manageable. We certainly haven't been losing business. If anything, things have shifted to the right relatively modestly. We have not seen orders being canceled or anything like that. The teams have been doing a great job of managing through it. Yes, an impact, but not as material as perhaps some of the bigger companies out there.

Quinn Bolton: It sounds like, most importantly, the demand you think is non-perishable and, to the extent you're constrained, it just sort of pushes into the next quarter.

Duncan Gilmour: We certainly aren't seeing any loss of business because of the challenges, that's for sure.

Quinn Bolton: Well, that's good news. We're bumping up against the end of the session, so I'll just hand it back to you, Nick or Duncan, if there are any closing statements or any sort of parting thoughts you'd like to leave with the audience.

Nick Grant: Great. Thanks, Quinn. We really appreciate the opportunity to present today. I just would reiterate again that it's not the traditional inTEST known by folks who have followed the company. It really is a different business going forward here. We are excited about the progress we've made in 2021, and we are in the early stages here of our growth plan going forward. So, keep an eye on us.