Operator: Good afternoon, ladies and gentlemen, and welcome to the inTEST Corporation Second Quarter Fiscal Year 2022 Financial Results Conference Call.

As a reminder, this conference is being recorded.

I would now like to turn the call over to Deborah Pawlowski, Investor Relations. Please go ahead.

Deborah Pawlowski: Thank you. Good afternoon, everyone. We certainly appreciate your time today and your interest in inTEST Corporation. Here with me are Nick Grant, our President and CEO, and Duncan Gilmour, our Chief Financial Officer and Treasurer.

You should have a copy of the Second Quarter 2022 Financial Results, which we released just after markets closed today. If not, you can access the release as well as the slides that will accompany our conversation on our website at ir.Intest.com. After our formal presentation, we will be opening the line for Q&A.

If you'll turn to Slide 2 in the deck, I will first review the Safe Harbor statement. You should be aware that we may make some forward-looking statements during the formal discussions, as well as during the Q&A session. These statements apply to future events that are subject to risks and uncertainties, as well as other factors that could cause actual results to differ materially from what is stated here today.

These risks and uncertainties and other factors are provided in the earnings release as well as with other documents filed with the Securities and Exchange Commission. These documents can be found on our website or at sec.gov. During today's call, we will also discuss some non-GAAP financial measures. We believe these will be useful in evaluating our performance.

You should not consider the presentation of this additional information in isolation or as a substitute for results prepared in accordance with GAAP. We have provided reconciliation of non-GAAP measures with comparable GAAP measures in the tables that accompany today's release and in the slides.

With that, if you will turn to Slide 3, I will turn it over to Nick to begin. Nick?

Nick Grant: Thank you, Deb, and good afternoon, everyone. Thanks for joining us for our second quarter 2022 earnings report.

The quarter played out better than we expected with both top and bottom-line results exceeding our guidance. This was truly notable when you factor in ongoing supply chain constraints, transportation challenges, and continued inflationary pressures the organization had to overcome. I would like to thank the entire inTEST team for delivering an outstanding quarter.

We continue to advance our five-point strategy, and we are executing well. Revenue grew 36% year-over-year and 23% sequentially to a record level of $29.6 million. Organically, revenue grew at an impressive 12% year-over-year. These strong results continue to show increasing demand for our innovative and differentiated solutions. Acquisitions contributed $5.2 million in revenue in the quarter with demand across most of our end markets. Double digit organic growth reflected our increasing presence in automotive EV and our industrial markets.

We believe that our diversification efforts around our targeted growth markets are working well. This is demonstrated by our strong sales of our leading test and process solutions to the automotive industry, including electric vehicles. In fact, compared with the prior year period, we saw sales for automotive quadruple to $3.6 million, of which 57% was related to the EV market.

Sales to the industrial market were also quite strong, up 92% to $2.9 million, and sales to the life sciences market doubled to $1.2 million. As we have been communicating, our diversification within semi is also providing benefits. Both sales and orders for our innovative solutions for the front-end space, specifically in silicon carbide crystal growth applications, were up year-over-year and sequentially. This is important as these applications are a relatively new space for us with our induction heating solutions.

For our backend semi solutions business, sales were lower due to the atypical strength we saw during the first half of 2021, yet orders for the second quarter rebounded strongly on a year-over-year and sequential basis. Gross margins stabilized at first quarter levels but was down from a year ago period. When comparing year-over-year, the change in product mix was the primary reason for margin contraction. This was mostly due to the strong backend semi business during the first half of 2021 that I just mentioned. Our custom engineered solutions in this backend test space generally tend to command our highest margins. Margins should improve as we drive productivity gains and as the investments, we have made to grow revenue and realize operating leverage continue to pay off as we advance through the year.

Integration of the three acquisitions that closed during the fourth quarter of 2021 is progressing well. These acquisitions as planned are strengthening, as we implement process improvements, expand their sales efforts, and integrate them into our systems. We are identifying new opportunities and unleashing greater potential for our technologies.

As a reminder, we began operating and reporting as three business segments this year. These segments align with our technology platforms of electronic tests, environmental technologies and process technologies. We believe this division structure enables us to increase efficiencies, broaden opportunities, better utilize our manager's talents, and leverage our strong customer relationships to accelerate growth and capture cost synergies.

We also expect to be able to increase collaborations across the businesses, which will help us create broader customer solutions. Finally, with our new technology division structure, we believe we are well positioned to build our forward vision of innovative test and process technology solutions and the platform to support our growth ambitions.

You can find the results by segment in our news release, as well as in the supplemental tables of our slide deck. We had record orders of $40.5 million in the quarter, a record backlog at quarter end, and demand remains high as we move into the second half of the year. This provides us with the confidence to reaffirm our revenue guidance for 2022 and establish third quarter revenue guidance of approximately $29 million to $31 million.

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

Duncan Gilmour: Thank you, Nick. Starting on Slide 4, we provide some detail regarding our top line. As Nick indicated, revenue for the second quarter 2022 was $29.6 million, a 36% increase over the same period last year and above our guidance of $27 million to $29 million.

Compared with the prior year period, revenue growth of $7.8 million was comprised of $5.2 million from the acquisitions we made in the fourth quarter last year, and $2.6 million from the balance of inTEST operations, which is 12% organic revenue growth. Both organic revenue and acquisitions contributed to growth in our industrial, automotive, including EV, and other markets.

The acquisitions were the main contributor to growth in the life sciences and security markets. This broadening contribution is indicative of the Company strategy to diversify and expand revenue with new customers and from new markets. Sales to the semi industry were strong with 4.7% growth versus the prior year period and 22.5% sequentially.

Within semi, shipments to frontend applications, including production of Silicon carbide crystal growth, were up 136% over both periods as we continued to deliver into strong demand. Backend semi sales were down

1.5% sequentially. Overall, the level of supply and logistics challenges in the second quarter were similar to our experiences in the first quarter and we estimate these issues impacted Q2 2022 revenue negatively by approximately $1 million.

I would reiterate next comments that even though the global environment remains challenging, our teams continue to do an outstanding job working through the issues, finding alternative sources, and aligning operations to best meet customer expectations. In addition to semi sales, industrial, automotive, life sciences, security, and other markets saw healthy sequential growth.

Moving to Slide 5, our second quarter gross margin, 45.8%, was comparable with the first quarter of 2022, demonstrating stabilization as efficiencies improve and historical price increases continue to work their way through production cycles. The contraction from 50.2% in the prior year period reflects less favorable product mix as backend semi test was exceptionally strong in the prior year period as well as the impacts of supply chain constraints and inflation on production costs.

As we have noted in the past, our backend semi test business historically exhibits our best margins. The integration of our acquisitions is moving along as planned and we are expecting modest profit margin improvements through the rest of 2022, driven by improving contributions from acquisitions, and increasing sales volumes.

Slide 6 details our operating expenses and expectations going forward. Operating expenses in the second quarter were 36.6% of sales compared with last year's second quarter's higher operating costs, reflecting incremental expenses attributed to the acquisitions, merit increases that we typically institute in the second quarter, as well as investments we have made in engineering, sales, and marketing. Pre-Tax intangible asset amortization was down only slightly from the first quarter.

We expect quarterly operating expenses for the balance of 2022 to be in the range of $10.8 million to $11 million. As we continue with our growth investment plans to support our five-point strategy, we expect that we will continue to demonstrate improving operating leverage with higher sales volume.

Turning to Slide 7, you can see our bottom line and Adjusted EBITDA results. Both GAAP and adjusted EPS in the June quarter were above our guided ranges. We had GAAP net earnings of $2.1 million or $0.20 per diluted share for the second quarter, which compares with $0.05 per diluted share for the first quarter of 2022. On an adjusted basis, EPS was $0.25 per share compared with $0.12 per share in the first quarter. Adjusted EPS reflects adding back tax effected acquired intangible amortization.

On an after tax basis, acquired intangible amortization amounted to $603,000 in the second quarter. We expect after tax intangible amortization for the balance of 2022 to be around the $500,000 level per quarter. The reported effective tax rate for the quarter was 17.7%. Our effective tax rate for the balance of the year is expected to be in the 16 to 17% range.

Adjusted EBITDA was $4.2 million for the second quarter, up a hundred percent from the first quarter of 2022, reflecting the impact of our increased profitability. In our Adjusted EBITDA calculation, we remove the impact of stock-based compensation. Stock based compensation is a non-cash expense and, as such, does not impact our liquidity. Accordingly, we believe our Adjusted EBITDA is a better performance measure to assess the strength of our cash generation ability than EBITDA alone. More detail on the calculation of Adjusted EBITDA can be found under non-GAAP financial measures in our earnings release.

Slide 8 shows our capital structure and cash flow. Cash, cash equivalents, and short-term investments at the end of the second quarter were $14 million compared with $17.2 million at the end of the first quarter of 2022. The decline reflects working capital investments to support our growth and help manage supply constraints. Similar to the first quarter, we repaid $1 million of debt, bringing it down to $18.2 million.

As a reminder, we had debt of $20.1 million at the end of 2021 as we established a term loan facility to finance two of our three acquisitions during the fourth quarter. We believe we are more effectively leveraging the balance sheet to achieve our goals than we had historically and have plenty of financial flexibility to continue executing on our five-point strategy for growth. Our current liquidity stands at approximately $29 million.

We plan to augment our line of credit to support our inorganic growth plans with an objective to maintain a total debt to Adjusted EBITDA ratio under 2.5X. For the right acquisition, we may flex up, but only with clear line of sight to our target leverage ratio. For the first six months of 2022, we used $5.1 million of cash in operations to support our growth, including investments in inventory and higher accounts receivable at the end of the quarter, due to the timing of shipments.

Capital expenditures during the six months were approximately $700,000, up from about $500,000 in the first half of 2021. We expect capital expenditures for 2022 to be around 1% to 2% of annual revenue, although we could make equipment purchases or investments that support our strategy beyond our current plans, if needed.

With that, I will now turn the call back over to Nick.

Nick Grant: Thanks, Duncan.

Slide 9 highlights our orders and backlog performance. Overall, demand for our products and solutions remain very strong with a second quarter book to bill of 1.4. In the first half of 2022, our businesses continued to add new customers with a focus on both end users and OEMs.

Orders for the second quarter of $40.5 million were up 61% when compared with the year ago period, and 62% compared with the first quarter of 2022. As mentioned earlier, this was a record level for inTEST, which shattered the previous record by 33%. What I believe makes it even more remarkable is that the previous record in the fourth quarter of 2021 included a single $10 million order for our induction heating solutions to be used in silicon carbide growth applications.

This quarter's record was much more diversified and achieved with the largest single order being just around $3 million. Year-Over-Year, demand was strong across all of our end markets, especially in semi, industrial and life sciences. Sequentially, orders grew across all markets, except industrial, which was down primarily due to timing of orders that we expect to receive in the second half of this year.

Orders for the semi market were up 62% year-over-year to $26.7 million. One third of this total was related to frontend applications, which more than doubled sequentially. Backend orders were exceptionally strong achieving 26% year-over-year growth and up 78% sequentially.

Our pipeline of semi business opportunities remained very active with more frontend orders expected from our induction heating solutions used in silicon carbide crystal growth applications, as well as our backend solutions as our new innovative products continue to gain traction. We are really enthused about diversifying our semi business beyond its historical reliance on backend test.

Our backlog at quarter end reached another record level at $46 million, approximately 45% of which is expected to convert to sales beyond the third quarter. Historically, only 20% to 25% of our backlog extended beyond the current quarter. We believe that our current level of longer-term backlog is higher than historical trends as customers seek to secure production capacity and to cope with longer lead times.

Slide 10 reaffirms our guidance for 2022 and provides third quarter expectations. With our first half results in the books and a record backlog heading into the second half, I am pleased with how the year is shaping up. We continue to expect revenue for 2022 to be in the range of $110 million to $115 million, and given our strong Q2 results, we believe we are likely to land near the upper end of the range. We now expect gross margins for the second half to range between 46% and 48%.

Quarterly operating expenses are now expected to run at approximately $10.8 million to $11 million. These estimated expenses include intangible asset amortization, which is expected to be approximately $600,000 per quarter, pre-tax. We also expect interest expense to run approximately $150,000 per quarter and our effective tax rate to be between 16% to 17% for the year.

As I mentioned earlier, for the third quarter of 2022, we expect revenue to be in the range of $29 million to $31 million. Q3 GAAP EPS should be in the range of $0.20 to $0.25 per diluted share, while adjusted non-GAAP EPS is anticipated to be approximately $0.25 to $0.30 per diluted share. The difference between GAAP and non-GAAP is tax affected acquisition amortization expense.

Our guidance is based on our current views with respect to operating and market conditions and customer forecast, which are subject to change, as well as our expectations for the balance of the quarter, and are subject to any strategic investments we may choose to make. It also assumes supply chain challenges remain relatively consistent with what we have been seeing with gradual improvements as we move later in the year.

Actual results may differ materially as a result of, among other things, the factors described under forward-looking statements found in the materials that accompany this conference call, including the press release and the slides. Slide 11 highlights our longer-term aspirational goals that we delineated at our Investor Day in late March.

With the talent we have in place and strong adherence to our five-point strategy for growth, we can see a path to essentially doubling the size of the Company from what we expect to report in 2022. This path includes both organic and acquisitive growth expectations and would represent a very strong top line CAGR.

Slide 12 shows the operating leverage we expect our business model to ultimately deliver that should drive cash generation and improve earnings power.

Now, let me summarize the key takeaways for inTEST on slide 13. We are encouraged with our very healthy pipeline of opportunities. Demand remains quite strong across our markets and our new structure strengthens our value proposition, improves our presence with customers, and enables us to better scale the organization. We are bringing in new talent and we are confident our team can sustain the agility needed to manage our operations to meet customer needs.

Executing on our five-point strategy for growth is delivering results, and we continue to see secular growth trends across our addressable markets. We have a healthy pipeline of acquisition opportunities and believe our disciplined approach will help drive growth and create shareholder value. Our balance sheet is strong and we have the financial flexibility to execute our growth initiatives, both organic and inorganic. We are encouraged by the strong demand across our markets.

Our solid first half results, along with the pace of our orders thus far gives us confidence in our 2022 outlook, even in the face of continuing supply chain challenges. We are optimistic about the healthy pipeline of projects as we skillfully manage our operations to meet customer needs. With that, Operator, let's open the lines for questions.

Operator: Our first question will come from the line of Jaeson Schmidt with Lake Street.

Jaeson Schmidt: Hi, guys. Thanks for taking my questions and congrats on the continued execution. Really impressive in the challenging environment.

Just want to start the supply chain. I know you mentioned $1 million in revenue you could not ship in Q2. Did that primarily fall in one end market or was that pretty spread out across each application?

Nick Grant: Hey, Jaeson, and thanks for your question. That million dollars was pretty diverse across the businesses. I think in Q2, we talked about it being more heavily weighted towards the acquisitions. In this case, it is really a collective number across the five businesses with product that either was sitting on the dock and did not get out, or we were expecting the component to get in that we needed to have to turn it to get it out. Duncan, any further color on that?

Duncan Gilmour: Exactly. Spread across the businesses, supply chain challenges across all of our portfolio.

Jaeson Schmidt: Okay. That's really helpful. Then just following up on that, I know you did mention seeing some incremental improvement in the backdrop here in the second half of the year. Are you seeing tangible signs of this, or is it more just the expectation that things have had to have bottomed earlier this year?

Nick Grant: I would say it is still one component after another, but we have done really a good job of building inventory. You probably see that in our working capital numbers. We believe we are well positioned. We grew the Company $5.5 million quarter-over-quarter, so we did a nice job really executing. We think with the investments we made and new suppliers on board, we are well positioned to deliver the second half.

Duncan Gilmour: I think as we have said before, we are managing the situation. We continue to manage the situation better. We are just more and more experienced with dealing with the supply chain challenges. If the world moderates a little bit, great, but we are just able to deal with it.

Jaeson Schmidt: Okay, and then just the last one from me, and I will jump back into queue. Some really nice traction in that auto EV segment. Is that really being driven by one or two customers or is that strength pretty broad based?

Nick Grant: It is pretty broad based. As you know, with the acquisition of Acculogic, we also expanded our presence in that auto EV space. We are leveraging the installed base to help us drive further growth.

Jaeson Schmidt: Okay. Got it. Thanks a lot, guys.

Nick Grant: All right. Thanks, Jaeson.

Operator: Our next question comes from line of Peter Wright with Intro-act.

Peter Wright: Great. Thank you for taking my question. Congratulations on the wonderful results. A couple of questions. The first one is on the comment that semi profits are I guess, leading the stack from an end market. Can you help us understand why you think that is? Is it just because it is more mature? Is it the solution that you are providing there? Really the heart of the question is, is the same trajectory of profit improvement going to be happening in other segments and how should we think of that?

My second question is, if you look at the upside versus expectations in the second half, is it the same customers; maybe depth placing bigger orders with you than kind of you expected; or is it more on the breadth side, more investors come to the table. If there is any quantification you can help us think about there, that would be helpful.

Nick Grant: Sure. Peter. Good to talk to you. Thanks for your question. On the semi profit side, our back end is, as you know, the heritage of the Company, it is where we are well established, in that backend test space. But really what is driving the high margins is the engineered aspects to it relative to some of more of our standard platformed products, like the induction heating with the easy heats and the eco heats and what have you.

These things are very customized to end user needs for specific tooling and chips that need to be measured. Due to that, we have the ability to get the higher margins on those type of products. Not to say that we are not capturing value-add in our other opportunities. We are, it is just at a different level.

Relative to the second half and the growth, I am really pleased with the broad-based activity. Each of our markets grew from an orders perspective in Q2, and it really is, as I commented on the call, it is not one big order. It is lots of orders with the largest being $3 million in the quarter. We are very enthused about the number of customers, our pipelines, and our activity, going on out there; that is going to drive that second half.

Peter Wright: That is wonderful, and Duncan, maybe just one last one for you. You guys did allude to the ramp in inventory and ARR about $10 million in the first half. Any guidance on pre-cash flow in the second half, and how should we think about working capital? Is that kind of a steady state that you are at? Do you think that is going to reverse in the second half? How should we be thinking of that?

Duncan Gilmour: Yes, clearly, we ramped working capital in the first half. Two main drivers are obviously fueling the growth, as you can see, growing from $24 million to $29 million, so partly fueling that and also helping manage supply chain.

We have invested in working capital intentionally to help manage some of the supply chain challenges, which the teams are dealing with really well. That certainly did eat into cash. We do expect that to turn around and be operating cash positive in the second half of the year.

Peter Wright: Great. Thank you, guys.

Nick Grant: Absolutely. Thanks, Peter.

Operator: There are no further questions pending at present time. I will turn the call back to Nick Grant, President and CEO, for closing remarks. Please go ahead, sir.

Nick Grant: Thank you, Dave. In summary, we are making excellent progress with the execution of our five-point strategy, and I am grateful to the entire inTEST team for the resiliency and persistence to exceed customer expectations. It is this dedication that enabled us to deliver our strong first half results.

You can note on Slide 14 that we will be presenting at the Midwest IDEAS Conference on August 24 and at the Needham Semiconductor SemiCap Conference on August 25. Perhaps we will see some of you there.

We really appreciate you taking the time to join us on our call today and your interest in inTEST. Thank you all and stay safe.

Operator: Ladies and gentlemen, thank you for your participation. This concludes today's event. You may disconnect your lines or log off the webcast at this time and enjoy the rest of your 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 Corporation (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 (www.ir.intest.com), as well as to information available on the SEC's website (https://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.