

**Operator:** Greetings, and welcome to inTEST Corporation Second Quarter 2024 Financial Results. It is now my pleasure to introduce your host, Craig Mychajluk. Thank you. You may begin.

**Craig Mychajluk:** 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 which 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](https://www.intest.com).

Please turn to **Slide 2** and I will 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](https://www.sec.gov).

Also, management will refer to 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. 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 3**, as I turn the call over to Nick. Nick?

**Nick Grant:** Thank you, Craig, and good morning, everyone. Thanks for joining us for our second quarter 2024 earnings call.

First, I would like to thank the entire inTEST team for their efforts in a relatively tough environment. As expected, the first half proved challenging as we continued to see weakness in our key markets of Semi, Auto/EV and Industrials. These three markets typically account for over 70% of our sales. Overall, the quarter was mixed with some aspects coming in as we expected and others falling short.

We did achieve record revenue of \$34 million, which came in at the low end of our guidance range while gross margin of 40.6% was much lower than expected driven primarily by volume coming in at the low end of the range and a less favorable mix. Lower commission expenses, reduced bonus accruals and our cost management efforts resulted in operating expenses coming in below our prior guidance. As a result, EPS came in at 2 cents per diluted share and 8 cents per diluted share on an adjusted basis.

Alfamation, which we acquired very late in the first quarter, contributed \$9.7 million in revenue that more than offset the ongoing weakness in semi. This was a record revenue quarter for that business, which was supported by the timing of shipments from the large backlog we acquired. We expect their shipment levels to normalize for the next few quarters.

Across the organization, we continue to execute our 5-Point Strategy focusing our growth efforts on diversified markets, product innovation and leveraging our application expertise. These efforts are helping as we manage through the current semiconductor cycle and the near-term sluggishness we are seeing in auto/EV and industrial markets. As a reminder, the addition of Alfamation strengthened and diversified our position in the automotive industry where they provide test equipment for electronics and infotainment systems. In addition, it strengthens our position in life sciences and consumer electronics.

The integration of Alfamation is progressing to plan and it's great to see the teams embracing numerous synergies across the businesses. These synergies range from product and technology sharing, to supply chain leveraging, to joint tradeshow participation and customer visits. One success captured in the quarter was a customer order received for a new Acculogic System with the Alfamation SuperNova software included. It was the combination of the two technologies that won us the order. I look forward to seeing many more of these types of wins.

Turning to **Slide 4**, I'll review orders and backlog. As we have been communicating for the last 8 months or so, the first half of 2024 was expected to be weaker than the second half of the year. Although second quarter orders did improve off of a weak first quarter comparable, the ramp in order trends we anticipated for the 2nd half looks to be more tempered, further impacting our outlook for the year. In addition, we have seen certain customers push out deliveries; however, we are not seeing any cancellations as these customers are indicating that they are confident their end-market demand will improve in the coming months.

Encouragingly, for the second consecutive quarter, back-end semi orders were up sequentially showing further signs of coming out of the trough. This improvement helped to offset the continued notable decline in front-end orders given the current pause in manufacturing capacity expansion for SiC and GaN. Our long-term perspective for the adoption of these technologies remains bullish.

During the second quarter, our backlog declined as we worked through a portion of the \$22.8 million in acquired backlog from Alfamation. As mentioned in the past, Alfamation's orders can be lumpy as timing of their large multi-system projects can vary quarter to quarter. While orders for that business were relatively soft in the second quarter at \$3.2 million, this was after booking more than

\$11 million in the first quarter of the year.

Looking more broadly across all of our businesses, our pipelines remain healthy. It's just the rate of conversion of these opportunities to new orders remains slow.

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

**Duncan Gilmour:** Thank you, Nick.

Starting on **Slide 5**, as Nick noted, revenue for the second quarter was \$34 million including \$9.7 million from Alfamation. The \$1.4 million increase compared with Q2 2023 was driven by \$9.2 million of sales growth in auto/EV, primarily from the acquisition. This more than offset the \$8.7 million sales decline in semi.

Sequentially, second quarter revenue increased \$4.2 million with auto/EV up \$6.8 million and life sciences up \$1.5 million. Both markets benefited from the acquisition. Semi revenue fell 32%, or \$4.8 million. Revenue from Alfamation more than offset that decline.

Moving to **Slide 6**, gross margin of 40.6% for the quarter contracted 325 basis points sequentially, driven by product mix.

On a year-over-year comparison, gross margin contraction was also significantly impacted by product mix with lower volume on our higher margin semi business being offset with lower margin revenue from the acquisition.

On a trailing twelve months basis, our gross profit was \$53.8 million, or 43.8% of sales, the drop reflecting the weakness in higher margin semi sales.

As you can see on **Slide 7**, compared with the prior year, our operating expenses were up \$1.8 million as we incorporated a full quarter of the acquisition's operating expenses.

Sequentially, cost reductions during the quarter lowered legacy business OpEx by nearly \$1 million and partially offset the \$2.0 million sequential increase from the acquisition. As a reminder, Q2 incorporated a full quarter of acquisition operating costs whereas Q1 included just over two weeks. Sequentially, while operating expenses in total were up \$870,000, as a percent of sales, the decline was 260 basis points to 39.6%.

Turning to **Slide 8**, you can see our bottom line and Adjusted EBITDA results.

For the quarter, net earnings were \$230,000, or \$0.02 per diluted share. Adjusted net earnings were \$959,000, or \$0.08 per diluted share. Adjusted EPS reflects adding back tax-effected acquired intangible amortization. On an after-tax basis, our acquired intangible amortization amounted to approximately \$729,000, or about \$0.06 per diluted share in the second quarter.

Adjusted EBITDA for Q2 was \$2.2 million, representing a 6.3% adjusted EBITDA margin.

**Slide 9** shows our capital structure and cash flow.

With a ramp in shipments towards the end of the quarter combined with cash-outflows for 2023 bonus payments and first half 2024 estimated tax payments, we used \$5.1 million of operating cash during the quarter. Capital expenditures in the second quarter were approximately \$300,000, unchanged from the prior-year period, and the resultant free cash outflow was \$5.4 million.

Cash and equivalents at the end of the second quarter were \$20.4 million, down \$7 million from the trailing quarter, reflecting free cash outflow combined with net debt repayments and foreign exchange impacts.

We ended the quarter with total debt of \$21.1 million. This reflects a total debt leverage ratio of 2.1x. During the quarter we repaid approximately \$1.1 million of debt.

We continue to have \$30 million available with our delayed draw term loan and an incremental \$10 million available under our revolver. As a reminder, in May we extended the maturity date on these facilities by four years to May 2031 and the draw down period was extended two years to May 2026.

Turn to **Slide 10**, as we review our outlook for 2024.

For the third quarter, we are expecting revenue to be slightly lower than the second quarter with gross margins improving somewhat. Third quarter operating expenses, including amortization, are expected to be similar to Q2. Total intangible asset

amortization is expected to be approximately \$900,000, and approximately \$700,000 after tax, or about 6 cents per share.

We are expecting EPS and adjusted EPS for the third quarter to be similar to the second quarter. As a reminder, we simply adjust for tax-effected amortization expense.

We have updated our full year outlook to reflect the market conditions and recent order trends Nick discussed. We now expect 2024 revenue to range from \$128 to \$133 million.

Gross margin for 2024 is expected to be approximately 42% to 43% with expected operating expenses of approximately \$54 million. This includes intangible asset amortization expense of approximately \$3.3 million, or \$2.7 million on a tax adjusted basis. Our expected effective tax rate remains at about 17% to 19%.

We still expect our capital expenditures in 2024 to run between 1% to 2% of sales.

As usual, our guidance does not include the potential impact from any non-operating expenses, such as corporate development, 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 11**, I will now turn the call back over to Nick.

**Nick Grant:** Thanks, Duncan.

**Slide 11** – In a tough macro environment, our team is keeping their heads down and executing our plan. As noted, we continue to face some heavy headwinds in the semi market, notably the front-end segment. As a result, our expectation is that demand for front end solutions supporting SiC/GaN will remain subdued into 2025. Accordingly, we have taken recent actions to right-size that business which should result in \$1.2M of annualized savings.

We continue to drive the teams to advance new product development as well as execute competitive displacement programs to gain market share. In addition, I'm pleased with the amount of increased face time our sales teams are spending with customers. Increasing customer intimacy during slow times will only position us better when markets improve.

In addition, our teams are constantly evaluating our go-to-market approach, pricing, competition, lead generation effectiveness and the performance of our channel partners to drive growth. Our optimization efforts in these areas will never stop.

As mentioned, our diversification progress is serving us well, and I'm pleased with the headway the teams are making on the integration of Alfamation and the synergies that are being captured.

In addition, we remain active on M&A pursuits which would further expand our portfolio of solutions allowing us to better serve our customers. I am excited about our future.

With that, operator, we can open the line for questions.

## Question & Answer

**Operator:** [Operator Instructions] The first question comes from Jaeson Schmidt with Lake Street Capital Markets.

**Jaeson Schmidt:** Just curious if you guys could talk about the linearity of orders in the quarter. Just wondering if it was more just broad-based softness throughout the quarter, or if things sort of turned at a particular point?

**Nick Grant:** Jaeson, I would say our order pattern followed what we typically see in a quarter with the first month being relatively soft and then improving in the second and the third month being the strongest.

So, I think that is normal. The teams are able to close more of the deals towards the end of the quarter and then the first month starts off slower. But optimistic that, the trend continues.

**Jaeson Schmidt:** Okay. That makes sense. And then you noted some pushout of deliveries obviously impacting this year, but wondering if these customers have given you an indication on kind of more specific delivery dates or if it's more just general, things have been pushed into 20-something?

**Nick Grant:** Most of the pushing we've seen was out of Q2 and more into Q4, where they want it before the end of the year. I haven't really seen much move into 2025. So yes, it's still within the year.

**Jaeson Schmidt:** Got it. And then just the last one for me, and I'll jump back into queue. You noted Alfamation integration is in track. Just curious if things are largely completed at this point or if there's some more lifting to be done?

**Nick Grant:** I'd say the integration is progressing well, as I commented on, and it's been 3.5, coming on 4 months now. We still have work to do to get these guys fully integrated. It just takes time, but really pleased with the progress we're making.

**Operator:** The next question comes from Ted Jackson with Northland Securities.

**Ted Jackson:** So my first question for you on the \$1.2 million in cost savings and the efforts you put there, can you put some meat on the bones in terms of how we'll see that find its way into the financial statements and the time lines work. And then -- am I correct that kind of given the weakness is in front-end semi, that some of the efforts here are done around the Ambrell business that you guys have?

**Duncan Gilmour:** To answer the second part, it's somewhat tied to that part of the business, which we're highlighting has certainly been softer than expected. First, that's commencing in Q3, so \$1.2 million annualized. It's fairly linear. We're not going to see a full impact in Q3, but a good portion of that. Again, that is an annualized linear number.

**Ted Jackson:** Cool. Number two, on auto industry. I mean you did comment a bit about the it's slowed in terms of auto activity. How -- when you get into the auto/EV business, I mean -- and you're operating in it. How tied to like unit volume, if you would, is your

business? I mean you've seen kind of a slowdown in terms of, call it, consumer demand for autos, I mean the press talks about like the slowdown in EVs all the time.

I mean is it like as the auto industry's units ramp up, does that drive business for you? And as they go down, does it drive less? I mean, I guess just kind of maybe a little color around like how to think about that sector because it's a big sector for you now that you have this acquisition in the fold and kind of how to think about it from a macro as we kind of read the press and everything like that.

**Nick Grant:** As you pointed, auto/EV is certainly a larger segment for us now with Alfamation. This really varies across the businesses. The auto portion associated more with our process technologies is a mix of capacity expansion, as well as efficiency upgrades of lines moving from traditional furnaces or welders to induction heating. So, we get a little bit of both there.

And of course, as demand is slower, that impacts our electronic test platforms, like our battery testers that we have with Acculogic. Those are more geared towards production volumes. So, you will see a slowdown in demand has more impact in that space.

Then from an Alfamation perspective, most of their programs are tied around new product launches and model year upgrades on dashboard electronics and onboard computing systems, for example. Not as much tied to an increase of volume of cars sold, but more tied to the next model year program and its release. So, a little bit less volume dependent, if you will.

**Ted Jackson:** So, if you were to look at the auto/EV business. How much of the business is tied to, let's call it, product launches and things like that? And how much of the business is tied more to production volume, if you would?

**Nick Grant:** Okay, before Alfamation, it was much more the latter. I don't have exact numbers, but Alfamation purely skews us more towards the model year changes. At a high level, I would say it's about 2/3 model year releases, 1/3 production volume would be my gut feel, but I don't have hard numbers on that, Ted.

**Ted Jackson:** Okay. And then my last question, and maybe it's a little more fun. On Slide 11 on your presentation, you highlighted a lot of diversification endeavors, channel partner expansion, Alfamation customer synergies and kind of space and green energy application expansion. And that's interesting stuff, and you hit a little bit of it with some of the Alfamation synergies in your presentation, but maybe take a couple of minutes and provide a little more color around each and some examples of the efforts on each of them since it's an important part of the strategy for inTEST. That's my last one.

**Nick Grant:** For geographic expansion, the teams have done a great job aligning and building the channel partner network appropriately to ensure we have the proper coverage. This channel management, channel accountability program really started last year as we brought some new leaders into the business. This year, we've made a number of upgrades with channel partners. We continue to expand to ensure we're optimizing our go-to-market in certain areas.

Commercial space is an area we continue to see some success. Our image capture solutions are used in a number of space applications. Our thermal testing chambers are seeing some nice activity there as well.

Then from a green energy perspective, our induction heating team has done a nice job delivering the message that induction is the green alternative to gas, furnace, et cetera. It's really gaining some traction, and we had some nice wins in that space. Our pipeline looks pretty healthy around these types of applications.

In general, industrial, as I commented earlier, had been sluggish driven by the higher cost of capital, clear project hurdles, delays getting sign-offs on projects, et cetera. But the programs are there, and I think we'll start seeing more of those flowing through.

**Operator:** There are no further questions at this time. I would like to turn the floor back over to Nick Grant for closing comments.

**Nick Grant:** Thank you, Zico.

We appreciate you joining us today, thank you for your time and we welcome the opportunity to answer any further questions you may have.

On **Slide 12** you can find the details regarding the replay of this call and a list of upcoming events we will be participating in. I hope to have the chance to meet you at a conference.

Thanks again for participating and have a nice day.

**Operator:** Thank you. This will conclude today's conference. You may disconnect your lines at this time. Thank you for your participation.

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.intest.com](http://www.intest.com)), as well as to information available on the SEC's website ([www.sec.gov](http://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.