

Operator: Ladies and gentlemen, greetings and welcome to the inTEST Corporation Third Quarter 2024 Financial Results Conference Call. 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 Relations. Please go ahead.

Shawn Southard: 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](https://www.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](https://www.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 turn the call over to you.

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

First, I would like to thank the entire inTEST team for their continued efforts executing on our strategy. We are adding new customers, we continue to optimize our channels to market, and we are driving innovation to differentiate our solutions. These efforts are helping offset some of the softness in a few of our key end markets. We are managing well through the current semiconductor cycle and benefiting more on our diversified markets, including automotive, life sciences and consumer electronics where our positions were strengthened by the acquisition of Alfamation. The integration continues to progress well as the teams are focused on driving product and technology synergies, leveraging our supply chain to improve costs and performance, as well as exploiting opportunities across the broader customer base.

A highlight in the Quarter was achieving gross margin of 46.3% on revenue of \$30 million, which was impacted by \$2 million in shipments being delayed into the fourth quarter. During the third quarter, Alfamation contributed \$5.4 million in revenue and sales to our diversified markets showed strength, while semi revenue demonstrated improving trends in back-end. In fact, sequential growth in back-end semi outpaced the decline in front-end.

The 570-basis-points expansion in gross margin compared with Q2 was driven by favorable product mix, improved volume from higher-margin back-end semi, and cost actions taken to adjust to market conditions. Our businesses have been aligning their cost structure with current market conditions through headcount reductions, less discretionary spending and insourcing activities. Since the beginning of 2024, headcount in our base businesses has been reduced by 10%. Product mix and our cost management efforts are reflected in our sequential improvement with operating margin expanding 60 basis points and adjusted EBITDA margin improving 180 basis points.

Turning to **slide 5**, I'll review orders and backlog.

Orders have modestly improved through the year and the quarter. Orders in Q3 were \$28 million, including \$3.9 million from Alfamation. Stronger demand in auto/EV, defense/aerospace, industrial and other markets outweighed the weakness in semi. Encouragingly, for the third consecutive quarter, back-end semi orders were up sequentially showing further signs of coming out of the trough. This improvement helped to offset the current pause we are experiencing in front-end semi.

Backlog has improved over the prior-year period and was up \$5 million recognizing the \$14.7 million contribution from the acquisition of Alfamation which had an elevated backlog at closing. As mentioned in the past, Alfamation's orders can be lumpy as timing of their large multi-system projects can vary quarter to quarter. Compared with the trailing quarter, backlog declined as we worked down Alfamation's backlog.

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 6**, as Nick noted, revenue for the third quarter was \$30 million including \$5.4 million from Alfamation. The \$0.7 million decrease compared with Q3 2023 was driven by a \$7.1 million sales decline in semi that was partially offset by \$4.5 million of growth in auto/EV, primarily from Alfamation, and improved sales in industrial and other markets.

Sequentially, third quarter revenue decreased \$3.7 million as approximately \$2 million in shipments were delayed into the fourth quarter. As we communicated last quarter was going to be the case, revenue from Alfamation was down compared with an unusually strong second quarter. Meanwhile, semi, industrial and other markets demonstrated improving trends.

Moving to **slide 7**, gross margin of 46.3% for the quarter expanded 570 basis points sequentially, driven by favorable product mix with improved volume in higher margin back-end semi solutions, and cost actions, as Nick noted.

On a year-over-year comparison, gross margin was nominally unchanged on lower revenue.

On a trailing twelve months basis, our gross profit was \$53.3 million, or 43.7% of sales, the decline reflects the weakness in higher margin semi sales.

As you can see on **slide 8**, compared with the prior year, our operating expenses were up \$1.5 million reflecting the inclusion of Alfamation's operating expenses as partially offset by cost reductions and corporate development costs.

Sequentially, operating expenses were essentially flat.

Turning to **slide 9**, you can see our bottom line and Adjusted EBITDA results.

For the quarter, net earnings were \$495,000, or \$0.04 per diluted share. Adjusted net earnings were \$1.2 million, or \$0.10 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 \$721,000, or about \$0.06 per diluted share in the third quarter.

Adjusted EBITDA for Q3 was \$2.4 million, representing an 8.1% adjusted EBITDA margin.

Slide 10 shows our capital structure and cash flow.

During the quarter, we generated \$4.2 million of operating cash. Capital expenditures in the third quarter were approximately \$500,000 and the resultant free cash flow was \$3.7 million.

We ended the quarter with total debt of \$16.1 million. This reflects a total debt leverage ratio of 1.8x. During the quarter we repaid approximately \$5.3 million of debt and repurchased approximately 141 thousand shares at an average price of \$7.38 for a total investment of \$1 million.

Cash and equivalents at the end of the third quarter were \$18.0 million, down \$2 million from the trailing quarter, reflecting net debt repayments and repurchased shares.

We continue to have \$30 million available with our delayed draw term loan and an incremental \$10 million available under our revolver.

Turning to **slide 11**, as we review our outlook for 2024.

We have tightened our full year outlook and now expect 2024 revenue to range from \$128 to \$131 million.

Gross margin for 2024 is expected to be approximately 42% to 43% with expected operating expenses of approximately \$53 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%.

The implied fourth quarter results from the tightened guidance implies revenue of \$34 million to \$37 million with gross margins of approximately 42%. Operating expenses, including amortization, are expected to be approximately \$13.5 million. Total intangible asset amortization is expected to be approximately \$900,000, and approximately \$700,000 after tax, or about 6 cents per share.

Based on the midpoint of our revenue guidance range, we are expecting EPS and adjusted EPS for the fourth quarter to be approximately 8 cents and 14 cents, respectively. As a reminder, we simply adjust for tax-effected amortization expense.

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 12**, I will now turn the call back over to Nick.

Nick Grant: Thanks, Duncan.

[Slide 12] While we have limited visibility beyond our fourth quarter, we believe we are seeing signs of stability in our targeted industries. The order pipeline has increased reflecting some gradual improvement with back-end semi demand and larger automotive projects. We believe once we are past the elections and moving into the New Year, CapEx projects will likely increase across a number of industries. The front-end semi market, which for us serves SiC and GaN applications, is currently paused. While the longer-term picture for these power semiconductor materials is encouraging, there is a need for the market to improve efficiencies with existing production lines, consume existing inventory, and adapt to the changes in EV demand. We are especially excited about the evolving GaN opportunity as that technology delivers high efficiency in many high-power applications.

We continue to optimize our go-to market by adding or upgrading channel partners that can drive higher sales while expanding our geographic coverage throughout the U.S. and around the world. In Southeast Asia our new Malaysia facility is coming along nicely, and we're already seeing the benefits from the engineers we have hired. In fact, our Environmental Technologies division has recently received their first order for a new product that was designed by their team in Penang. This modified thermal test solution was something that was on our New Product Roadmap for some time; but until now, we did not have the bandwidth to complete it. It's great to see the team members making an impact in their first few months of being on board. I look forward to many more future successes from the team.

As noted in our 5-Point Strategy, Innovation is one of the keys to our success. In our Electronic Test Division, our automated manipulator with our inTellidock solution was recently installed at a key customer in Europe as an integrated solution that we expect could lead to many future opportunities. In addition, our automated manipulator has been coupled with the latest test technology and is in the test phase at a large intelligent computing company and initial feedback is very positive. It's our know-how and expertise that differentiates us and opens up these type of competitive displacement opportunities.

Our Process Technologies Ekoheat 2 induction heating system is being leveraged in NextGen solutions for a number of key customers. With its industry-leading internal control and power delivery system, which by the way, leverages Silicon Carbide technology, our EKOHEAT 2 can lower system operating costs, provide increased uptime and has built-in performance diagnostics for asset health monitoring.

Despite the headwinds we are experiencing in some of our key markets, we are not sitting still. We are driving innovation, we are constantly working to optimize our go-to-market approach, we are capturing price for our value-added solutions, and we continue to evaluate acquisitions that can complement or enhance our existing technologies. In short, we are executing on our strategy.

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

Question & Answer

Operator: Thank you. Ladies and gentlemen, we will now be conducting a question-and-answer session. [Operator Instructions] The first question is from the line of Jaeson Schmidt with Lake Street. Please go ahead.

Jaeson Schmidt: Hey, guys. Thanks for taking my questions. Just want to start on the order pushouts you highlighted. Curious if those are concentrated at a couple customers, or if it is just more broad-based. And then I guess, relatedly, what end market is that related to?

Nick Grant: Good morning, Jaeson. So, the roughly \$2 million that we referenced in pushouts from Q3 to Q4 really were shipment delays that didn't reach a customer by the end of Q3 and basically arrived in early Q4. So that's roughly the \$2 million that we referenced. With that said, we have seen customers push out front-end semi. We continue to work with customers in that space on shipments where they placed orders that we've had in our backlog for a while. So just accommodating them, more so on the front-end side.

Jaeson Schmidt: Got you. And then related to the front-end semi market, I know, at a high level, there are some longer-term tailwinds, but just curious, how are you guys thinking about when to expect a pickup there? Or is just visibility too clouded at this point?

Nick Grant: What we're hearing from our customers – and we're actually working with a number of them on their next-gen solutions – is that they're anticipating second half of 2025 for deliveries. Obviously, that can change, but that's the timeline we're hearing from multiple customers in that space.

Jaeson Schmidt: Okay. That's really helpful. And then just the last one for me and I'll jump back in the queue. I mean, really nice gross margin performance. I know you highlighted the head count reductions and in-sourcing and some improved efficiencies. Just curious how much of this could potentially be permanent. When the demand profile picks back up, is this the new level for gross margin?

Duncan Gilmour: It's tough to break down all the elements, Jaeson. As you know, mix certainly is the biggest driver of that very strong gross margin but we also see the benefit of the cost initiatives that Nick highlighted. I mean, very roughly, but it's hard to discern. There's probably about a percentage point of benefit from cost actions and things like that flowing through that number with the majority of the uptick being the mix factor with the higher back-end semi that we highlighted.

Jaeson Schmidt: Okay. No. I appreciate that color. Thanks a lot, guys.

Nick Grant: Thanks, Jaeson.

Operator: Thank you. The next question is from Ted Jackson with Northland Securities. Please go ahead.

Ted Jackson: Good morning. I've only got a couple of questions, actually, a couple of mine were hit just now. First of all, when you made a comment about the head count reduction being down 10% in your base businesses, can you define what the base businesses are?

Nick Grant: It's our collective companies outside of Alfamation. At this stage, they're all part of our base business. Now, some of those five companies are not being impacted as severely as the others. So, collectively 10%, but it's more weighted towards businesses that are seeing the downturn in the front-end semi space and the industrial slowdowns where we've taken some actions.

Ted Jackson: Okay. And then with the reduction like that, how do we see that playing through into the financials? I haven't gone through and really dug in, tried to put my fourth quarter together again. So, I assume we'll see some of this in the fourth quarter. Does it play out almost immediately? Is it something that we'll see an additional impact as we get into the first quarter of 2025? A little color there, please.

Duncan Gilmour: Just to provide a bit more clarity; last quarter, we talked about a more specific action of about \$1.2 million of annualized benefit – around 12 head count, I think we referenced – which took place towards the end of last quarter, starting to flow through this quarter, and ongoing a little bit of severance, for example, associated with that relatively minor action.

The total head count that Nick's referring to is really over the course of the last nine months or so, as demand has softened in a number of businesses. We've obviously adjusted direct labor, operational expenses. As we've seen that demand soften, it hasn't really been one action per se. It's been activity that's been occurring over the course of the last nine months. And when we look back, we have reduced head count in the base businesses, as we mentioned, by that 10%. But it's been a gradual process and we've been seeing those benefits slowly creep through the numbers, so to speak.

We're certainly seeing here in Q3 with the margin being strong, the impact of that, and we'll continue to see that going forward. I would reemphasize though; a lot of that margin uptick is driven by what was a favorable mix in Q3 versus very unfavorable mix in Q2 as a comparison.

Ted Jackson: Okay. My next question, just maybe front-end spin hit on, but just maybe a little more color around the back-end. I mean, you've commented for several months, I guess, at this point that you have seen the back-end stabilize and improve and maybe some color in terms of when you look at that business and the incremental strength that you're seeing in it. Is there anything to note in terms of end market that strengthening? Or is it a geography, underlying drivers, like reshoring? You see where I'm going – just anything dramatic within what's happening in that business, which we're calling out?

Nick Grant: Nothing in particular, I would say, worth calling out. It is a gradual improvement. It's not like it an L-shaped take-off, if you will. But we are seeing more and more requests for quotes. Our pipelines are growing. Some CapEx projects are signaling to be kicked off here very soon. So yeah, we feel pretty good about that back-end showing that gradual improvement. Now on the flip side, front-end is for us very anemic right now.

Ted Jackson: Well, hopefully that will turn around in the near future for you, too. Last question and just more of a thematic, color thing. Talk a bit about Alfamation to help everyone, including myself, understand it better. It's still a good chunk of your backlog. You're working through it. I know it's a business that has a lot of exposure within the auto world and that what happens within that is tied to new models, model refreshes of cars and stuff. I was wondering if you could maybe provide a little color in terms of where we are in terms of some of the cycles that impact Alfamation's revenue growth?

Like, is there anything in terms of some model releases that you are excited about. Anything like a new model refresh or a new design win within a particular vertical? Or, it could even be getting into commercial or heavy equipment as they start automating it and there's more electronics going into it. Maybe sketch out some themes that drive the growth of that business. And that's it for me.

Nick Grant: Sure. So very excited still to have Alfamation as part of the inTEST family. The majority of their testers go into automotive. The automotive industry is doing a little bit of reshuffling in the last couple of quarters as EV models have slowed and are moving more towards the ICE hybrid type vehicles. For Alfamation, it's agnostic for them. It's just a matter of, which programs go forward.

So, encouraging is the pipeline at Alfamation, really seeing some nice pickup on projects and this whole shift of around the computing in vehicles, the onboard computing systems, moving more to a centralized computing system versus the computers within the different infotainment systems. One managing the entire car is a design shift, infrastructure shift that is underway across numerous OEMs, which is good for us and will require new testers around these onboard computing systems. As well as the changes in the electronics that are being managed will also require change testers to monitor them and evaluate quality.

So yeah, there's a lot going on in cars. I think everyone's well aware of that. And new tech, new features, there's a lot of testing opportunities for us. So, we feel very positive about the future for Alfamation. Just timing wise, as we pointed out, orders can be lumpy.

Ted Jackson: Okay. Thanks very much, guys. Have a great day.

Nick Grant: Thanks, Ted.

Operator: Thank you. [Operator Instructions] As there are no further questions, I would now like to hand the conference over to Nick Grant for closing comments.

Nick Grant: Thank you, Ziko. We appreciate everyone joining us today and thank you for your time. We welcome the opportunity to answer any further questions you may have.

On **slide 13**, you can find the details regarding the replay of this call and a list of upcoming events we'll be participating in. I hope to have a chance to see some of you at an upcoming conference.

Thanks again for participating and have a nice day.

Operator: Thank you. This concludes today's teleconference. 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), 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.