Operator: Greetings and welcome to the inTEST Corporation Fourth Quarter and Full Year 2021 Financial Results Call. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the call over to Deborah Pawlowski, Investor Relations for inTEST. Thank you. You may begin.

Deborah Pawlowski: Thanks, and good morning, everyone. We certainly appreciate your time today. Joining me for inTEST's fourth quarter and full year 2021 financial results conference call are Nick Grant, our President and CEO, and Duncan Gilmour, our Chief Financial Officer and Treasurer. You should have a copy of the fourth quarter 2021 financial results, which we released this morning before the markets opened. If not, you can access the release as well as the slides that will accompany our conversation today at our website www.intest.com. After our formal presentation, we will be opening the line for Q&A.

If you'll turn a 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 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 morning, everyone. Thanks for joining us this morning for our earnings report. Before we begin, I would like to acknowledge the world events that are occurring and extend our thoughts and prayers for everyone that has been impacted by this conflict.

We ended 2021 strong with continued solid execution on our 5-point strategy. I'm pleased with our progress around driving growth, diversifying our markets and customer base, and ensuring we have the right talent to achieve our goals. I want to thank the entire inTEST organization for their dedication and outstanding performance throughout a challenging, but transformational, year for the company.

We had exceptional revenue growth of 50% to $22.4 million in our fourth quarter compared with the prior year period. For the year, revenue finished up nearly 60% to $85 million, which is the highest this company has achieved in over 2 decades. While quarter to quarter, there can be variances within our target markets, we believe that our very strong results for the quarter and the year validate our diversification and growth strategies. We have instituted more discipline and accountability around sales, marketing and customer relationships. We also are adding the resources needed and investing in additional MarCom activities to effectively drive greater awareness of our offerings. Our efforts to go deeper into accounts and widen our customer base are paying off.

For the quarter and the year, we had robust demand for our precision technologies, with particular strength in both the front-end and back-end of the semiconductor industry. Our strategy is enabling us to capture greater market share as we strengthen our customer relationships, develop new products and reignite relationships with former customers. We also are strengthening our position in the very front-end of the semiconductor manufacturing process with our induction heating technology, which is used for crystal growth processes. We believe that our diversification efforts around targeted growth markets are working well. This is demonstrated by the strong sales of our leading test and process solutions to the automotive industry, including electric vehicles. In fact, we saw our bookings more than triple and sales more than double in the automotive electric vehicle industry in 2021.

Our diversification efforts were enhanced by the three acquisitions which added $1.5 million in revenue in the quarter, primarily in security and life sciences. There were a few factors that impacted gross margin, some of which we expect to see improve. We, of course, are not immune to the supply chain constraints and inflationary pressures everyone is facing. While these challenges are currently not improving, we do expect some relief as pricing actions begin to flow through along with anticipated supply chain improvements in the latter half of the year. The change in product mix was another reason for the margin contraction. This was mostly due to the significant volume earlier in the year that we had for back-end semi cap equipment, specifically custom manipulators, docking systems and test interfaces. That moderated as industry investments shifted focus towards front-end fab expansions.

Our custom engineered solutions in this back-end space generally tend to command our highest margins. Duncan will talk further regarding our margins and the atypical costs impacting the quarter. We made some tremendous progress expanding our portfolio of solutions with the three acquisitions in the quarter that further diversifies our offerings and expands our solutions to better serve our target markets. On the third quarter call, we discussed the October acquisitions of Z-Sciences and Videology Imaging Solutions. In December, we acquired Acculogic, Inc. and its affiliates.

If you'll turn to Slide 4, this provides a brief overview of Acculogic and their automated test equipment. Acculogic provides differentiated flying probe know-how and solutions to the electronic circuit test markets. Of specific interest to us is the early position the company has gained in electric vehicle battery testing applications. These products expand our portfolio of solutions for electric vehicle OEMs and battery manufacturers. With the addition of this differentiated automated test equipment, we are creating an electronic test platform that goes beyond the semiconductor market with deeper penetration in the automotive, defense, aerospace and life science markets.

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 5, we provide some detail regarding our top line. Revenue for the fourth quarter was $22.4 million, a 50% increase over the same period last year and just below the top end of our guidance. Multimarket revenue grew 35% from the third quarter, fueled by strength in the automotive market, while our Semi business remains near recent highs even as it's pulled back from record levels in the second quarter of 2021. As Nick noted, our investments in innovations, the sales and marketing discipline being instilled throughout the organization, a drive to accountability, and the increased sophistication of our operating processes have all resulted in a larger share of customer wallet and new customers. This has been especially true with our renewed emphasis in the Semi market that has also provided significant tailwind advantages. In addition, a successful acquisition strategy enabled market expansion and contributed about $1.5 million in revenue in the quarter and for the year.

Moving to Slide 6, our fourth quarter gross margin of 46.3% compares with 49.2% in the third quarter of 2021 and 45.2% a year ago. The contraction in sequential margin, despite higher volume, reflected less favorable product mix, lower absorption of fixed manufacturing costs due to production inefficiencies, the lagged effect of price increases, and the timing of acquisitions within the quarter. As Nick noted, our back-end semi business is the most lucrative in our product portfolio and, earlier in the year, we benefited from the unusual spike in product demand. The measurable spike in demand for the year was a combination of strong end-market pull-through, a new leadership and focus for the business that has reignited our customer relationships.

As to production inefficiencies and a lagged effect of price increases, we continue to actively manage the ongoing challenges of supply chain constraints and are continuously playing catch up on inflation as regular rollouts of pricing actions have tended to lag in backlog. The timing of acquisitions refers to the impact of our acquisitions closing towards the tail-end of the quarter when slowdowns during the November and December holiday periods brought on overhead costs without proportionate revenue. Obviously, we expect that this corrects itself going forward with more consistent quarterly performance. Year over year, the 110-basis-point expansion in gross margin was due to positive volume, product mix and production efficiencies gained from the consolidation of the back-end semi business into our New Jersey operations.

Slide 7 details our operating expenses and expectations for the first quarter. Operating expenses were $10.1 million in the fourth quarter and included approximately $1.6 million in total atypical acquisitions and financing expenses, $750,000 in incremental operating expenses related to acquisitions, and $200,000 of additional intangible amortization expense. Total intangible amortization expense in the quarter was $522,000.

The $2.2 million increase related to the trailing third quarter included about $1.3 million in sequentially incremental costs related to atypical financing and acquisition expenses and the aforementioned incremental operating and intangible amortization expenses, approximately $950,000 in total. Existing total business operating expenses were relatively flat quarter over quarter. For 2022, we expect quarterly operating expenses to range from $10.5 million to $11.2 million, increasing throughout the year. This includes our current quarterly estimate of about $650,000 of total intangible amortization expense. The increase in operating expenses reflects a full quarter of incremental operating costs related to all acquired businesses.

You can see our bottom line and adjusted EBITDA results on Slide 8. We had net earnings of $287,000, or $0.03 per diluted share, for the fourth quarter, which compares with net earnings of $2.2 million, or $0.20 per diluted share, for the third quarter. On an adjusted basis, EPS was $0.07 per share. I'll remind you that this includes the negative impact of approximately $1.6 million of atypical costs in the quarter, which after tax amounts to approximately $0.14 per diluted share.

The effective tax rate in 2021 was around 13%. We benefit from tax credits related to export sales. Adjusted EBITDA was $1.4 million for the fourth quarter, up measurably from the prior year period on stronger volume and operational efficiencies. Compared with the trailing third quarter, adjusted EBITDA declined, primarily due to the contraction in gross margin already discussed as well as the atypical cost items that we do not adjust out.

Beginning with the third quarter, we began reporting adjusted EBITDA, which removes 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 than EBITDA alone. More detail on the calculation of adjusted EBITDA can be found under Non-GAAP Financial Measures in our earnings release.

Now turn to Slide 9 for our capital structure and cash flow. As previously announced, in October we executed a new 5-year credit agreement, which included a $25 million non-revolving delayed draw term loan and a $10 million revolving credit facility. During the fourth quarter, we used $20.5 million under the term loan facility to finance our acquisitions. At the end of the year, we had $20.1 million drawn on the term loan and had no balance outstanding on the revolver. We believe we are better leveraging our balance sheet than we had historically and have plenty of financial flexibility to continue executing on our 5-point strategy for growth.

Cash and cash equivalents increased by $10.9 million in 2021 to $21.2 million. We continued to demonstrate our strong cash generation capabilities and generated $10.8 million of cash from operations for the year. Capital expenditures during the fourth quarter were $417,000, up from $114,000 in the third quarter. For the year, CapEx was approximately $1 million and included investments in capacity expansion as well as maintenance. For 2022, we expect capital expenditures to be around 1% to 2% of annual revenue; however, depending upon changes in market demand or manufacturing and sales strategies, we may make purchases or investments as we deem necessary and appropriate.

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

Nick Grant: Thanks, Duncan. Slide 10 highlights our orders and backlog performance. Overall, demand for our products and solutions remains robust with orders for the quarter and year reaching record levels. While we will always welcome market tailwind, our objective is to execute our 5-point strategy to grow faster than our served markets. We continue to extend our reach in targeted growth markets while deepening customer relationships across these industries.

Orders for the fourth quarter increased 73% over a year ago to $30.5 million, surpassing our previous high. This primarily was due to demand for our technologies and Semi outpacing the market's growth and include a large front-end order that will ship throughout 2022. Additionally, we reached record orders for the year of approximately $102 million, driven by strong demand across markets, especially semi, electric vehicles and life sciences, along with some uplift on the acquired businesses. Our backlog at quarter end was also at record levels at $34.1 million, approximately 65% of which is expected to convert to sales in the first quarter.

Please turn to Slide 11 and I will provide our 2022 outlook and first quarter expectations. We had a strong year of progress with our 5-point strategy and are expecting to continue to drive growth as we diversify our markets and expand our customer base. Our recent acquisitions added to our product offerings and technical expertise and extended our customer base into adjacent high-growth markets. Integration efforts are well underway across all 3 businesses.

We are issuing full-year guidance for 2022. We expect revenue to be in the range of $110 million to $115 million, with gross margins ranging throughout the year between 46% and 49%. We also expect interest expense to run approximately $150,000 per quarter. Our effective tax rate is anticipated to be between 15% and 17% for the year.

For the first quarter of 2022, we expect revenue to be in the range of $23 million to $25 million as we continue to work through supply chain and logistic challenges. We expect GAAP EPS to be in the range of $0.04 to $0.09 per diluted share and adjusted non-GAAP EPS in the range of $0.10 to $0.15 per diluted share. Our guidance is based on our current views with respect to operating and market conditions and customer forecasts, 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 unchanged for the first half of the year and begin to modestly improve in the second half. 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.

Let me now hit the key takeaways on Slide 12. We expect to grow organically through innovative products, sales, channel enhancements and marketing prowess. We believe our efforts, combined with a robust pipeline of new customer opportunities, can provide further differentiation for our business and drive growth and profitability over the long term. Also, our M&A funnel development is ongoing and we continue to be focused on programmatic acquisitions being a key element of our 5-point strategy. Our team continues to identify acquisition targets that we believe will bring differentiated and innovative technologies, provide complementary capabilities, or enable deeper or broader reach within our target markets and geographies.

We made excellent progress in the first year of transforming inTEST with our 5-point strategy. We believe we are well on our way to unlocking the true potential of the company. We expect our investments in our leadership team, sales and marketing strategies, operational improvements and acquisitions to ultimately enable us to continue to drive accelerated growth and build shareholder value.

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

Operator: [Operator Instructions] Our first questions come from the line of Jaeson Schmidt with Lake Street.

Jaeson Schmidt: Sorry if I missed it, but I just want to make sure that I didn't. Was there any demand you were unable to ship in Q4 and, if so, would you mind quantifying that?

Nick Grant: Yes, Jaeson. Great question. All of our businesses are seeing constant struggles to get the right parts in a timely manner to make the shipments. Now with that said, they've done a good job of locating new sources and really we're able to fill the gap and drive the revenue levels that we had anticipated coming into the end of the quarter, with our guidance finishing towards the top of the guidance provided on that. I think, in general, there absolutely was more we could have shipped had we gotten the parts. Again, I don't have a sense really on how much that could have been.

Duncan Gilmour: It's tough to quantify an exact number. Certainly, the last couple of weeks of the quarter, as Nick said, there were tremendous supply chain challenges, which the teams did amazing jobs to overcome and get product out the door, to a certain extent at a cost as we've explained with respect to margin percentage. So, I would say, yes, more revenue could have been shipped had there been zero supply chain constraints. As I said, it's very tough to put an exact number to that, but we certainly are seeing the same pressures that I think most market participants are talking about and seeing. It's fair to say, yes, we could have done more, but I really can't put a number on it.

Jaeson Schmidt: Okay, that makes total sense. I know you indicated that you expected a modest improvement in the supply chain in the second half. I'm just curious if that just relates to availability of components or do you expect the inflationary cost, the logistics, transport, et cetera, to moderate as well?

Duncan Gilmour: A little bit of both I would say.

Nick Grant: Absolutely. We're trying to fill our inventory with the components needed and, if our suppliers are able to deliver, we'll be in a better position in the second half. As the pressure for supply freeze lessens, it should put less pressure on inflation out there.

Jaeson Schmidt: Okay. And then, just the last one for me and I'll jump back into queue. It sounds like the integration of the acquisitions is going well. I'm just curious if you've come across any surprises, positive or negative, now that you've had more time with each of these companies, and relatedly, how is traction with cross-selling going?

Nick Grant: Great question. I'm quite pleased with the integration efforts that we've been able to complete so far, so I'd say our integration plans are tracking as we expected. It's a sign of really a thorough due diligence process and knowing what we're actually acquiring out there and what we want to do with it once we acquire it. So, no big surprises. We're uncovering things here and there, but nothing that derails our plans of what we plan to do with these businesses.

Operator: Our next questions come from the line of Dick Ryan with Colliers Security.

Dick Ryan: Nick, I have a couple on the semi side of the business. You had roughly $55 million in revenues for '21. How was that split front-end to back-end? Do you have a rough breakdown there?

Duncan Gilmour: I can give you a little bit on that. We're talking about low 30s on back-end and low 20s on front-end, roughly. Let me just clarify that. It's more like mid-teens for front-ends. I'm forgetting that there's a component there that I was thinking in the '22, so let me correct that. It's more like your high 30s back-end and mid-teens on front-end.

Dick Ryan: Okay. And then, I'm trying to tie that to the large order you talked about on the front-end. Can you give us a little more color as to the size? Is it to your typical customers in the front-end? Is it for any other applications that Ambrell's delivering? Can you provide any more details on that?

Nick Grant: Yes, sure. What we saw with this is, it's an existing customer obviously driving expansion in their capacity to support the front-end demand that the world is seeing out there for semiconductor devices.The size of the order that was placed was roughly $10 million. It was really I would say, both to support their capacity and also to cover traditional demand that we were seeing with that, but just securing supply and getting the pipeline flowing throughout all of 2022. These products will ship throughout 2022. Given the pressures with the supply components and everything, they want to make sure we're planning appropriately to support their needs. We appreciate that, having that visibility, and we're so very pleased to be able to secure that order in Q4.

Dick Ryan: Is that the largest order you've seen on the front-end? That $10 million seems pretty outsized versus what I had expected in the front-end.

Nick Grant: I believe it is a record order on that front-end out there. I don't have all the details going back in Ambrell's history, to be honest with you, but since we've owned the company, it is.

Duncan Gilmour: I think it's also important to note, it's an order that's going to deliver over an extended period of time. From a supply chain perspective, the customer is getting ahead of challenges and really placing that order in advance, which is a little atypical from what we've seen in the past.

Dick Ryan: Okay. One more on the semi side. It sounds like you had a little bit of a pause on the back-end and that's really your gross margin driver, those product sets. How do you see that back-end market moving through '22?

Duncan Gilmour: I can take that. I would say the back-end business has moderated from your record highs in 2021. It's still strong and very strong in historic terms, so that's great. We do see, in 2022 versus 2021, it coming off those highs, pretty much in line with what we're seeing out there in the marketplace from other participants in that back-end space.

Dick Ryan: Okay. One last one for me. Nick, you talked about the growth in EV and auto. Can you give us just how much EV-related business you did in '21 and maybe even on the cannabis side and how that compares to '20?

Nick Grant: Sure. On the automotive EV, we saw this market really provide nice growth for us in 2021. The revenue doubled, which I've talked about, so it's what we are striving for around that EV space, and bookings tripled. Our total automotive EV business was almost $5 million in 2021 and bookings were twice that. The EV portion of itwas roughly just less than half of that from a revenue perspective.

Dick Ryan: Okay. Any cannabis-related business at the end of the year and what did that amount to for '21?

Nick Grant: Cannabis was relatively flat for us in 2021 from a revenue perspective. That industry saw a number of things taking place. Consolidations and investments were, I would say, hampered in that space, but we continue to strengthen our portfolio. We've made great progress penetrating OEMs in that chiller extraction applications out there, and we expect that portion will ramp back up for us going forward here.

Operator: [Operator Instructions] Our next question is coming from the line of **Peter Wright:** with Intro-act.

Peter Wright: Congratulations on a great quarter and a fantastic guide. My first question is on visibility. If I look at your backlog, the more traditional turns in the mid-70s push down to 60, 65-ish. How much of that is timing and that one $10 million order and is there anything structural that's changing to drive better visibility in your business?

And the other point that touches on the visibility is, your sales guidance for the full year suggests sequential growth through the year after seven or eight quarters of sequential growth, which is untypically strong. What is behind that? Is it demand? Is it supply? Is it new products? Is it just getting closer to your customer? What is it that is giving you this better visibility?

Nick Grant: It's all of the above that you just mentioned there. We're driving, as you know, part of our 5-point strategic plan, innovation, expansion in our global reach and front-end investments and service, so all that's driving better visibility for us. Going back to the order, obviously, we got that order in Q4. We haven't shipped any of that, so that's in our backlog going throughout the year with very little shipping in Q1 and most of it flowing in the outer quarters out there. That is giving us a position that we haven't had in the past of really entering a quarter with much more focus on just executing versus having to go out and get those book ship orders, if you will, to convert on that. Our teams are, I'd say, feverishly working on supply chain, making sure we get the components we need and ensuring we have the resources to be able to build the products. It's all about execution. It's a good position to be in as we head in here to 2022. Of course, the acquisitions are also part of that.

Duncan, do you want to add to that?

Duncan Gilmour: No, I think you've covered it. To your first question on the percentage, yes, obviously the large order we talked about, that delivering over an extended period of time will drive some of that percentage, which also helps to give us a bit more confidence on the revenue side. The acquisitions coming in, as Nick talked about, again, gives us your degree of comfort in terms of those aggregate numbers and some confidence there. We're talking about the back-end semi piece moderating a bit, coming off these record highs, but the sentiment out there across the semiconductor sector is still very strong. Your projections for demand over the medium to longer term are very positive, both front-end and then some additional back-end work further down the line likely following on from that. I think all of those factors give us that degree of confidence.

Nick Grant: I would just remind everyone, this is the first time you see this company maturing, where we're giving a full year guidance out there, because we do have that confidence. We really made great progress on our plans executing here, we're seeing the tractions and we like the way this business is developing.

Peter Wright: That's wonderful. My second question is on the semi side. In the press release, you refer to some new applications, which I'm thinking is tech versus capacity, if customers are buying either capacity or tech. Can you frame up with us what is driving this record demand right now and the context of that? How much is capacity maybe helping us to understand where utilization is on the tools in the field and how much of it is new application technology buys?

Nick Grant: I think it's adoption of technology that's been out there. If you think of the silicon crystal growth application that's becoming predominantly more and more on the power management side of things as the core technology, that's driving and fueling the growth on that front-end piece for us. On the back-end, we've been driving innovative new products around high voltage, high current to support more on that power management modules, testing side of it there. So, we're entering new markets and we're benefiting from technology adoption, so it's all the right things we should be doing as we go after greater penetration in our targeted spaces.

Peter Wright: Very last question for me, if I can squeeze one more in. If I look at your operating expenses as a percentage of sales, obviously, it bumped up a little bit in the fourth quarter for the reasons that you highlighted and, incremental, you gave the guide for the year. Should we expect that, that is something that you feel comfortable maintaining in the mid-30s going forward?

Duncan Gilmour: I think what we're going to see, Peter, is it's going to bump up a bit in Q1. We're investing in the acquisitions to make sure we're getting them on the right path and able to deliver what we see is great growth potential over the extended time horizon for those businesses, as well as investing in the legacy business, so I think we see a little bit of a pop in terms of a percentage. We also have higher revenue expectations for Q2 through Q4, if you work through the numbers in terms of Q1 versus the full year, and we need to gear up a little bit for that. So, what we're projecting, you'll see, is a higher percentage there in Q1 and then that coming back down more into that range that we've seen the last few quarters as the business stabilizes at the higher revenue level towards the back-end of the year.

Peter Wright: Phenomenal guide and call.

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

Nick Grant: All right. Thank you, Darrell, and thanks everyone for joining us today on the call and for your interest in inTEST. I would once again like to thank the entire inTEST organization for supporting and driving our transformation. Really great progress this past year in our long-term strategy and more to come. For our institutional investors and analysts, if you've not already done so, please RSVP to attend our Investor Day. You should have seen invites. We are hosting our first Analyst/Investor Day in a few weeks on March 24th in Philadelphia. We certainly hope you can join us. Thank you all for the time this morning and we look forward to discussing Q1 results in May.

Operator: Thank you. This does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Have a great weekend.