Operator: Greetings. Welcome to inTEST Corporation Fourth Quarter 2023 Financial Results. [Operator Instructions] Please note, this conference is being recorded.

Deborah Pawlowski: 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 crossed the wires yesterday aftermarket, as well as the slides that will accompany our conversation today. The 2023 10K was filed yesterday as well. These documents are available on the investor relations section of our website, inTEST.com. You will also find there our restated third quarter and nine months 10Q/A that was also filed yesterday. Duncan will touch on that briefly.

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.

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, Deb, and good morning, everyone. Thanks for joining us for our fourth quarter 2023 earnings call.

I'm pleased to report that 2023 was our second consecutive year of record revenue, achieving $123.3 million, while also reaching net income of $9.3 million for the year, the highest level in over a decade. So, I'd like to start by acknowledging and expressing my appreciation to the entire inTEST team across the globe for their outstanding efforts and commitment to our strategy. We believe our effective execution of our 5-Point Strategy is delivering growth, solid financial performance, and strong cash generation. Our strategy provides the framework that drives innovation, deeper penetration into target markets, geographic expansion, and attracts top talent.

Through the year, we made good progress at key accounts and strengthened our channel relationships around the world to improve our customer reach. Additionally, we announced a new Center of Excellence in Malaysia for applications engineering, product development and localized manufacturing that will support all of our divisions and allow us to better serve customers in Southeast Asia.

We believe that as we further deepen our presence into our key target markets, we are building greater stability which is helping to offset our exposure in the more cyclical semi market. Fourth quarter revenue was impacted by the downturn in semi backend orders that we discussed on our Q3 Earnings call; however, we are benefitting from our breadth of innovative solutions serving the expanding needs of our non-semi customers, especially in the industrial, auto/EV, and defense/aero markets. Specifically, compared with the fourth quarter of 2022, the industrial market had sales growth of $3.7 million, as our Process Technologies division realized strong demand for several of their innovative products, including our popular EKOHEAT induction heating solutions. Building on that success, we launched the EKOHEAT 2 induction heating product line in December offering the next generation of this technology. We're excited about the exclusive enhancements that we've made to this popular product line.

Additionally, we saw our fourth quarter sales in auto/EV increase $1.2 million over the prior year driven by our Environmental Technologies division, where our process chillers are serving specific demands from the expanding need for inverter testing in electric vehicles. In the quarter we also saw greater adoption of our battery test solutions for this market offered by our Electronic Test division.

Further supporting our diversification, our fourth quarter sales were up 11% in the defense/aero market, as activity in this segment is on the rise due to global instability. We have seen increasing demand from this market for our Environmental Test chambers. These products provide high accuracy test capability over a wide temperature range, supporting capacity expansion of various arsenal systems.

We were encouraged to see fourth quarter demand continuing in the defense/aero and industrial markets with orders improving 70% and 110% compared with the third quarter, respectively.

We also demonstrated the strong cash generation that is inherent in our business both in the quarter and the year which Duncan will cover in more detail.

Organizationally, we continue to add talent to the team and are pleased to have recently announced the addition of Michael Goodrich as President of our Process Technologies division. Mike joined us from Vixar Inc., a subsidiary of ams Osram, a manufacturer of high-performance optical components and solutions. He is a proven leader of global, cross-functional teams and shares a passion for the customer fostered by his deep industry experience. We welcome him to the team and look forward to his contributions to our organization.

Mike is just one example of how we are building our teams. Throughout the year and across our organization, strong talent has been added in sales, engineering, and manufacturing support roles to assist us on our transformational journey.

Turning to **Slide 4**, I want to highlight the progress we've made on the diversification front, which is an important component of our 5-Point Strategy and one that separates inTEST from its past. As part of our strategy, we have made tremendous strides to strengthen our presence in key target growth markets outside of semi as well as looking to diversify within Semi with an eye towards the front-end.

Our efforts have resulted in increasing our non-semi markets' combined share of revenue from around 35% in 2021, up to 47% in 2023 and we accomplished this while also growing our semi revenue by approximately 20% over the same time frame. As I mentioned earlier, 2023 revenue increased despite the second half slowdown in semi because of our growing presence in key target markets like defense/aero, industrial, security, life sciences, and the electric vehicle market. I'm quite pleased with the diversification progress we have made which aligns with the strategy we laid out at our inaugural Investor Day back in 2022.

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.

Before I review the results for the fourth quarter and 2023 as a whole, I want to touch on what caused the third quarter restatement where we are now deferring $1.7 million of previously recognized Q3 revenue along with the associated costs. While we felt we had accounted for this correctly in our earlier Q3 report, subsequent consultation during the year-end audit process ultimately resulted in us reaching a different conclusion.

To help everyone's understanding, let me give you some additional details.

As with most manufacturing companies, we have many carefully chosen and qualified suppliers for materials and components that we use in the bills of material for our products. During the year, we had a handful of suppliers notify us of their plans to discontinue some key materials or components that we use within a few customers' systems. This is often referred to as a "last time buy" notification or opportunity. We notified our customers in the event they wanted to buy more of our systems that utilize these components. While not necessarily ready to commit to placing orders for additional systems at the time, a small number asked us to purchase, exclusively on their behalf, a certain amount of these obsoleting components to ensure they would be able to order more of our systems in the future without the need for design changes due to changes within the detailed bills of material. We did this for them and were paid in full for these purchases with full legal ownership and risk transferring to the customers. However, in most cases, it was requested that these materials remain at our production facilities and despite the fact that: (1) it is not guaranteed that we will ever actually get future additional orders from these customers, and (2) all future orders are subject to terms unknown at this time and would be for additional consideration; we have determined that the revenue from the pre-purchase and sale of these "last time buy" components should more appropriately be deferred until there is certainty as to the ultimate customer use for, and physical receipt of, these materials and components.

As already mentioned, the impact on the third quarter was a deferral of $1.7 million of revenue as well as the associated purchasing costs. After being tax effected, this reduced our previously reported net income in the third quarter by approximately $700,000. On a fully diluted basis, this reduced our third quarter EPS by 5 cents to $0.19. The deferred revenue and costs are now on the balance sheet and will be released if and when future orders using these materials and components are fulfilled or when they are physically shipped to our customers. The restatement has had no impact to our cash balance at the end of the third quarter as the related transactions were 100% paid for by our customers.

So, with that, let's turn to the fourth quarter and full year review.

Starting on **Slide 5**, revenue for the full year was a record $123.3 million, up 6% or $6.5 million over the prior year's record. This $6.5 million revenue growth was driven by a $5.5 million increase in the defense/aerospace market, a $4.3 million increase in industrial, and increases of 14% and 6% in security and life sciences, respectively. As Nick just touched on, the diversification of revenue more than offset the $2.7 million decline in semi.

Fourth quarter revenue was down $4.5 million year-over-year and $3.1 million on a sequential basis. In both cases, this was primarily due to the softness in the semi market which was partially offset by increases in the industrial and auto/EV markets.

Moving to **Slide 6**, gross profit for the year increased 7% to $57.0 million. Gross margin expanded 50 basis points to 46.2% reflecting the impact of higher volume, favorable mix and ongoing pricing and cost actions.

For the fourth quarter, gross profit of $12.4 million was down $2.5 million compared with a year ago and $2.0 million sequentially. Margin contraction was related to product mix and lower volume.

As you can see on **Slide 7**, our operating expenses for 2023 were up

$3.8 million over 2022, driven primarily by $1.2 million of higher corporate development expenses. As a percent of sales, OpEx increased 110 basis points to 37.7%.

For the fourth quarter, the modest year-over-year increase included approximately $400 thousand of higher corporate development expenses.

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

For the quarter, net earnings were $1.5 million, or $0.12 per diluted share. Adjusted net earnings were $1.9 million, or $0.16 per diluted share.

Adjusted EBITDA for Q4 was $2.4 million, representing an 8.7% adjusted EBITDA margin.

For the full year, net earnings of $9.3 million benefitted from interest on higher cash balances which resulted in other income of $1.3 million. On a per diluted share basis, net earnings for 2023 were up 1% to $0.79 compared with $0.78 the prior year. Adjusted earnings per diluted share were $0.94 compared with $0.99 in 2022.

Adjusted EBITDA for 2023 was $15.8 million, representing a 12.8% adjusted EBITDA margin.

Slide 9 shows our capital structure and cash flow. We achieved strong operating cash generation in each quarter of the year, including $4.7 million in the fourth quarter, totaling $16.2 million for the year. Capital expenditures in the fourth quarter were $0.3 million, unchanged from the prior year, and $1.3 million for the full year, down from $1.4 million in 2022. Given our modest capital expenditure requirements, free cash flow for 2023 was $14.9 million.

Cash and cash equivalents at the end of 2023 were $45.3 million, including the $19.2 million raised through our ATM equity offering in the second quarter. We paid down $4.1 million in debt during the year, including $1.0 million in the fourth quarter. Total debt at year end was $12 million.

We ended 2023 with $85 million in liquidity, which included the $45.3 million in cash and borrowing capacity of $30 million with our delayed draw term loan facility and another $10 million on our revolver. Our leverage ratio at the end of 2023 was about 0.8X.

While we are talking about 2023, I should note that in the first quarter of 2024 we used about $19 million of cash for the previously announced acquisition of Alfamation.

Turning to **Slide 10**, our fourth quarter orders of $27.5 million were down 12% year-over-year and up 2% versus the prior quarter. Both sequentially and year-over-year, we experienced strong demand in defense/aerospace and industrial markets, as well as front-end semi. Sequentially, orders from defense/aerospace increased 70%, while industrial orders more than doubled.

Semi front-end orders were resilient in the fourth quarter, primarily supporting epitaxy applications. Back-end orders declined further year-over-year and sequentially but began to show stabilization. Combined semi orders, while down 10% year-over-year, improved sequentially by 3% to $13.3 million.

Backlog at year-end was $40.1 million, 14% lower than the prior year and down 1% compared with the prior quarter.

Approximately 45% of the backlog is expected to ship beyond the first quarter of 2024.

Turn to **Slide 11** as we review our outlook for 2024.

This first quarter has had a good number of moving parts as we come to the end of it here. Including just over two weeks of acquired operations from Alfamation, we are expecting revenue to be about $29 million with gross margin of approximately 45% to 46%. First quarter operating expenses, including amortization, are expected to be approximately $13 million. This is somewhat elevated given corporate development expenses and the higher level of professional fees, both from the Alfamation acquisition, as well as with the restatement process. Intangible asset amortization, after tax, is expected to be approximately $0.5 million.

We expect our effective tax rate to be between 16% and 17%.

We are expecting EPS for the first quarter to be about 6 cents per diluted share, while adjusted EPS should be approximately 10 cents per diluted share. As a reminder, we simply adjust for tax-effected amortization expense.

For our full year outlook, with the addition of Alfamation which we acquired on March 12th, we expect 2024 revenue to range from $145 to $155 million.

Gross margin for 2024 is expected to be approximately 45% to 46% with expected operating expenses of roughly $57 to $59 million. This includes tax-adjusted intangible asset amortization expense of approximately $3.5 million. Our expected effective tax rate is higher given the jurisdictional impact of the acquisition and is expected to be about 18% to 20%.

For capital expenditures in 2024, we expect 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 shows how well-suited to our Five Point strategy the acquisition of Alfamation was. We view the business as an ideal fit for our Electronic Test division as it deepens our presence in key target markets such as auto/EV and life sciences, further diversifies us into the consumer electronics space, extends our geographic reach with a sizable footprint in Europe, and broadens our portfolio of differentiated automated test solutions.

And if you'll turn to **Slide 13** you can see how the additional scale provided by the acquisition furthers our progress toward our 2025 revenue goal of $200 to $250 million. Assuming all goes to plan this year, 2024 revenue will be over 2.5 times what we achieved four years ago while also continuing to deliver on our solid margin profile.

Slide 14 shows the translation of revenue growth to strong earnings. Our goals are to maintain our top-tier margin profile, harvest the economies of scale, and leverage the diversity of our served markets.

We are executing to plan as noted on **Slide 15**. Our 5-Point Strategy is delivering results for shareholders. Our engineered solutions are valued by our customers. And, we believe our diversification efforts are demonstrating results with our focus on key target market growth.

I'm proud of the entire inTEST team for delivering another solid quarter and year, as we continue our journey to becoming a supplier of choice for innovative test and process technology solutions.

We remain very active in pursuing acquisition opportunities to enhance our product offerings, expand our global footprint, and deepen our presence in targeted industries. And our Balance Sheet is in a solid position to support these efforts.

With that, Operator, let's open the lines for questions.

Question & Answer

Operator: [Operator Instructions] Our first question is from Jaeson Schmidt with Lake Street.

Jaeson Schmidt, Lake Street Capital Markets
I know Q1 is almost over, but just curious if you could discuss, what you've seen from an order pattern perspective? I know orders were up sequentially in Q4. Just curious if that trend has continued here in Q1?

Nick Grant: Thanks for the question. As we have laid out before, we anticipated the first half of the year was going to be slower and then the second half would ramp up as with improving back-end semi. I would say things are playing out in line with that perspective.

Jaeson Schmidt: Okay. That's really helpful. And then on the semi market, I know you highlighted it's becoming a smaller piece of the pie. But just given the volatility in that end market, I would be curious what you're seeing from a visibility perspective there? And how you're thinking about trends in that market for the year?

Nick Grant: The semi back-end market. Again, I'd say, the stabilization with Q4 orders back-end semi, relatively stabilizing there. We think that will continue. Based on what our customers and others are saying, we anticipate seeing more of CapEx investment in the second half. So, we still feel we've laid out the right trajectory, and we're marching forward.

Front-end semi, as we highlighted in the call, remained resilient in Q4, geared more towards the epitaxy application. We have quite a bit of activity on that front as well. As for the timing of orders, we'll determine whether we see them in Q1 or Q2, but still active on the front-end side of semi. What I mentioned, and what we've highlighted, is the diversification that we've provided throughout our efforts to expand in other markets has really positioned us well. So, we're very, very pleased.

Jaeson Schmidt: Got it. And then just a last one for me, and I'll jump back in the queue. I know you highlighted all the bullet points on the Alfamation acquisition a couple of weeks ago. But when you look at your outlook for the year, does that assume that you can sort of hit the ground running with Alfamation? Or are you expecting any sort of just general friction out of the gate as things get integrated here?

Nick Grant: It takes time to drive the synergies together that we've identified. We do have a nice backlog coming in with Alfamation. So, its execution is a focus as we integrate the business and then try to build the groundwork around the synergies that we see from the sales side, which then should help us continue to accelerate the growth going forward. We do anticipate that business will continue to tick along as it has, which we laid out.

Operator: [Operator Instructions] Our next question is from Ted Jackson with Northland Securities.

Ted Jackson, Northland Capital Markets, Research Division
So, Duncan, just a quick question for you. There's like $1.3 million of deferred revenue on the balance sheet now that will be burned off over time. Is there a timeline you can put around that? I mean is that something we should see happening over the next 12 months to the year, I mean is there something that we should be doing as modeling?

Duncan Gilmour: Yes, I think that the deferred revenue is probably closer to about $2 million in terms of what's on there. And we're estimating that just over 2 years time frame, about 40% or so within 12 months and the rest after that. As indicated in the prepared statements, that gets released as and when we receive future orders from customers or there's clarity from the customer that they just want to receive the raw materials and components. So, our best estimate at the moment is about 40% in 12 months, about 60% beyond is the way we're looking at it.

Ted Jackson: Okay. And then we had a nice discussion from you all with regards to the semi market, which was very informative. But can we talk a bit about industrials and what's driving your business there? I mean it's performed well throughout the past 2 years from a reported levels also on an ordering level. What's driving that growth? And what do you see will be the driver to growth going forward?

Nick Grant: Well, we're serving the industrial sector across all but our EMS business. So, we have a lot of products focused on targeted applications we believe are the right growth avenues, and it has delivered for us. Then, our innovation of new products we continue to launch and bring the market is opening up additional opportunities in that industrial space. So, it's not like we're a one-trick pony in the industrial markets, we're covering it on multiple fronts. So, we'll have success in some areas one quarter and other areas another. Overall, we're moving the needle on the industrials as you point out.

Ted Jackson: If you move away from kind of your products, which it's nice to have a diversity in terms of the products you're selling into the Industrial segment, are there particular industrial markets that are more important to you than others?

Nick Grant: Well, where we saw some traction last year was with our green initiative in our induction heating solutions, which went into the power utility space, and oil and gas applications where induction heating was preferred versus torch flame use. It's a much greener solution for customers. We continue to see a nice pipeline around the green initiative. That's one example, one product that's working well. Again, these products like induction heating solutions, cameras, chillers, etc., can be used in a wide variety of applications, and we're certainly going after as many as we can find.

Ted Jackson: Okay. And then I'll step back in line after this question. But I'm just sticking into the different verticals and end markets. On the order side, the security business, the orders fell off a cliff, and I'm curious as to what's going on within the security business? What was the reason for the big drop in the fourth quarter? And how can we think about that in 2024?

Nick Grant: It's all timing. These are identification cameras, traffic management cameras. The customers will place a large order at any given time for multiple quarters. Depending on when those hit, it will move the needle, but they're still small numbers. So don't read too much into things cratering. It's just a timing on orders.

Ted Jackson: Would you expect to see the business -- you had a really good year in '22, and this year was clearly down a bit from that. Do you expect that business to grow in '24 from fiscal '23?

Nick Grant: Absolutely. We continue to pursue opportunities, launch new cameras in this space. And yes, we would expect to continue to drive growth across that vertical.

Operator: We have reached the end of our question-and-answer session. I would like to turn the call back over to Nick Grant for closing remarks.

Nick Grant: Thank you, Sherry. Before we close, I would like to express my sincere gratitude once again to our global team as they continue to deliver outstanding results.

Finally, we will be participating in the LD Micro 2024 Invitational Conference in New York on April 9. We hope to connect with some of you there.

We appreciate you taking the time to join us on our call today and for your interest in inTEST. Thank you all and have a great day.

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