Operator: Good day, and welcome to the inTEST Corporation Fourth Quarter 2022 Financial Results Conference Call. Please note today's event is being recorded.

I would now like to turn the conference over to Shawn Southard. Please go ahead.

Shawn Southard: Thank you. Good morning, everyone. We appreciate you joining the call today and your interest in inTEST Corporation.

Here with me are Nick Grant, our President and CEO, and Duncan Gilmour, our Chief Financial Officer and Treasurer.

You should have a copy of the Fourth Quarter 2022 Financial Results, which we released earlier this morning. If not, you can access the release, as well as the slides that will accompany our conversation, on our website at ir.Intest.com. After our presentation, we will open the lines for Q&A.

If you'll turn to Slide 2, I will 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 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.

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 slides.

With that, please turn to Slide 3, and I will turn it over to Nick to begin. Nick?

Nick Grant: Thank you, Shawn, and good morning, everyone. Thanks for joining us for our fourth quarter 2022 earnings call.

I plan to provide some high-level remarks for you, then I'll hand it off to Duncan to speak to the specific results of the quarter and full year. Once he's finished, he'll hand it back to me to speak to our Orders and Backlog, and our expectations and goals for 2023 and beyond. Then we'll take your questions and I'll wrap up with a few closing remarks.

Let me start by saying I'm extremely pleased with the results we were able to achieve in 2022. I want to acknowledge the outstanding efforts of our employees across the globe. Solid execution of our 5-Point Strategy by our results driven team delivered record performance in 2022 including orders, backlog, and revenue. Revenue and orders for the quarter and the year were also in-line with our previously announced preliminary results. Our fourth quarter revenue surpassed $32 million - up 45%, and our full year revenue was approximately $117 million - up 38%, versus the prior year.

These results include a full year of the impact of the acquisitions we made in 2021 and integrated in 2022 including North Sciences, formerly Z-Sciences and Videology, both acquired in October 2021, and Acculogic, which was acquired in December 2021. Going forward these operations will be fully accounted for as a part of our organic revenue.

Our organic revenue grew a very healthy 28% in the fourth quarter and 17% for the full year.

Fourth quarter orders of $31 million increased 3%, while our full year 2022 orders of $130 million increased 27% versus the prior year with strong demand in semiconductor, automotive including electric vehicles or EVs, defense/aerospace, and life sciences. Additionally, our backlog at the end of the fourth quarter remained strong at $47 million.

By expanding our addressable markets, building out our sales channels, building our talent and staffing, and driving innovation with new products, we've successfully expanded our geographic reach, widened our customer base, and grew our target market offerings and positions. Further demonstrating the success of our strategy, we integrated the three acquisitions that added new technologies and deepened our presence in our target markets.

Our goal with the 5-Point Strategy is to accelerate growth while diversifying the business. To remind everyone, the elements of our strategy are:

- Global and market expansion;
- Innovation and differentiation;
- Service and support;
- Talent and culture; and
- Strategic acquisitions and partnerships.

As a result of the investments and focus we have made in these areas to expand our customer base and increase channel partners, we were able to capture organic revenue growth across all our markets last year. This growth was fueled both by end market demand for our highly engineered technology solutions as well as the impact of the acquisitions.

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

Duncan Gilmour: Thank you, Nick.

Starting on Slide 4, revenue for the fourth quarter 2022 was $32.4 million, up 45%, or $10 million, versus the same period last year and at the top end of our guidance range of $30 to $32 million.

This revenue growth of $10 million comprised $3.7 million of acquired revenue, and $6.3 million of organic revenue, representing 28% year-over-year organic revenue growth. Independent of organic or acquired, inorganic categories, we experienced strong demand across our offerings contributing to growth in all our target markets.

Silicon carbide growth applications, along with test solutions for analog and mixed signal applications, drove semi sales to $19.5 million, up 58% year-over-year. Demand for both our existing and acquired technologies grew in the defense/aero market, while our acquisitions were the main contributor to growth in the security, auto/EV, and life sciences markets – and this broadening contribution is indicative of the Company's strategy to diversify and expand revenue with new customers and from new markets.

Moving to Slide 5, gross margin of 46.2% in the quarter, was very similar to the prior-year Q4 period. Compared with the trailing quarter, gross margin improved 100 basis points reflecting higher volume and beneficial shifts in product mix.

Supply chain and logistics challenges are abating somewhat – or more realistically, are becoming a normalized part of our business. Our teams have continued to adapt admirably through these challenging times.

As you can see on Slide 6, our operating expenses were relatively consistent with our trailing third quarter, and down 110 basis points as a percentage of revenue, driven by operating leverage as the business scales.

As a percentage of revenue, operating expenses declined more than 1,000 basis points from the prior year period. Note that last year's fourth quarter included $1.3 million in transaction costs related to acquisitions and financing. The $0.9 million total increase over the prior-year period includes the incremental operating expenses from acquired businesses which added approximately $1.9 million. We also invested in sales & marketing and engineering as we executed on our strategy to drive growth.

Pre-Tax intangible asset amortization was down $43,000 from the third quarter.

Turning to Slide 7, you can see our bottom line and Adjusted EBITDA results. We had net earnings of $3.2 million or $0.30 per diluted share for the fourth quarter. On an adjusted basis, non-GAAP EPS was $0.34 per share compared with $0.28 per share in the third quarter. Adjusted EPS reflects adding back tax effected acquired intangible amortization.

On an after-tax basis, acquired intangible amortization amounted to $463,000 in the fourth quarter. We expect after tax intangible amortization for the first quarter to decline slightly to approximately $450,000.

Adjusted EBITDA, which excludes stock-based compensation, was
$5.3 million, a nice improvement over both the prior-year and trailing quarters.

Slide 8 shows our capital structure and cash flow. After the $25m increase in our term loan facility at the end of Q3, we ended the year with $30 million available under this facility. We also have the full $10 million available under our working capital revolver. We believe we are effectively leveraging the balance sheet to achieve our goals and have the financial flexibility to continue executing on our 5-Point Strategy for growth. We continue to balance that with our objective to maintain a total debt to Adjusted EBITDA ratio under 2.5x. As you can see on the slide, our current leverage ratio is just 1x giving us considerable flexibility to continue to pursue our acquisition strategy.

Our cash and equivalents at the end of the fourth quarter were $13.4 million. We also have $1.1 million in restricted cash related to a pre-payment on a customer order. As we did in the prior two quarters, we repaid $1 million of debt, bringing it down to $16.1 million. Note that repayment of debt does not increase funding available under the terms of our term-loam facility.

While for the year we used cash from operations to fund both growth and build inventory to address supply chain shortages, we have in the last two quarters been converting more earnings to cash and generated $2.3 million in cash from operations in the fourth quarter and $3.7 million in the second half of 2022. As we go forward, we expect we will continue to generate positive cash flow from operations.

Capital expenditures during the year were $1.4 million, up from about $1.0 million in 2021. Our capex requirements continue to be planned at about 1% to 2% of revenue.

With that, if you will turn to Slide 9, I will now turn the call back over to Nick.

Nick Grant: Thanks, Duncan.

As previously mentioned, our fourth quarter orders were $31 million – an increase of 3% versus the prior-year. This reflected increases across all end markets except in semi. Our orders to the semi market declined $6.6 million compared with last year's fourth quarter, but I'll remind you that last year's fourth quarter benefitted from a record approximately $10 million order for our induction heating solutions serving silicon carbide crystal growth.

Sequentially, our orders declined 4% driven by the timing of orders for semi and automotive/EV markets. This was partially offset by increased orders for the life sciences, security, and other markets.

Our backlog at the end of the year, was approximately $47 million, up 37% versus the prior year. Our Backlog declined sequentially about 2% as supply chain constraints moderated enabling us to increase shipments to better meet customer demand. Approximately 45% of the backlog is expected to ship beyond the first quarter of 2023.

Now I'd like to speak to our outlook for the First Quarter 2023 and our Full Year 2023 expectations on Slide 10.

As we enter 2023, we're excited about where we're headed. While the quarterly cadence of orders may be a bit lumpy, we are confident that we can achieve our revenue target, which represents high single-digit organic growth. In fact, this is despite the variability that we expect in our back-end semi market. Encouragingly, our customers in this space are indicating they continue to see positive secular growth trends over the long-term. In addition, we continue to pursue strategic acquisitions and partnerships to expand our portfolio and better serve our target markets.

We expect revenue for the first quarter of 2023 to be in the range of $30 to $32 million with a gross margin of approximately 45%.

First quarter operating expenses, including amortization, should run between $11.1 million and $11.3 million.

Intangible asset amortization is expected to be approximately $540,000 pre-tax, or $450,000 after tax.

Given loan balances and current rates, our interest expense should be approximately $190,000 for the quarter.

We anticipate first quarter 2023 EPS to be in the range of 21 to 26 cents, while adjusted EPS should be in the range of 25 to 30 cents. As a reminder, we simply adjust for tax-effected amortization expense.

We expect our high single-digit growth this year to be driven by strong demand across nearly all technology offerings and end markets. Customers' demand for our products in automotive/EV, defense/aerospace, and life sciences industries has been strengthening where we have broadened our exposure through acquisitions. Additionally, demand for our front-end Semi applications around Silicon Carbide Crystal Growth remains robust. We do expect our back-end Semi to moderate in the second half of the year.

Revenue for the full year 2023 is expected to range from $125 to $130 million. This does not include the potential impact from any additional acquisitions we may make.

Our gross margin in 2023 is expected to be consistent with 2022, or about 45% to 46%. Operating expenses should be in the range of $44 to $46 million. This includes intangible asset amortization expense of approximately $2.1 million for the full year. This translates to tax adjusted amortization expense of approximately $1.7 million for determining adjusted earnings. Our effective tax rate is expected to be similar to 2022, or approximately 16-17%.

Finally, as Duncan mentioned, our capital expenditures for 2023 are expected to continue to run between 1% to 2% of sales.

Slide 11 highlights our revenue growth goals for 2025 that we outlined during our 2022 Investor Day. This demonstrates the success that we are having against our plan. Based on our 2023 revenue expectation of $125 to $130 million, we will have grown the Company at a greater than 30% CAGR since we implemented our 5-Point Strategy. We expect to continue driving high single digit organic growth, coupled with strategic acquisitions, enabling us to achieve our 2025 goal of between $200 and $250 million in revenue.

This includes targets for additional acquisitions we may make in between now and then. Acquisitions are an important element of our long-term strategy. We have an active pipeline of opportunities, and we have flexibility with our capital structure that we believe will allow us to execute on our plan.

If you'll turn to Slide 12, given our expectations for topline growth, we believe we can drive meaningful earnings and cash generation as we scale. We believe our plan positions us to deliver divisional operating income of $40+ million, adjusted EBITDA of approximately $30+ million and improve earnings power to approximately $20+ million - all by 2025.

Let me sum up on slide 13. As I have noted, our 5-Point Strategy is delivering results for our shareholders. Our engineered solutions that enable our customers to improve productivity or create more effective solutions themselves are in high demand. Our growing sales force is reaching more prospects and our new organization structure, with three technology focused business segments, has driven greater collaboration across the Company. This, in turn, creates even more opportunities for growth.

We believe that we are unlocking the potential of inTEST through our 5-Point Strategy by driving discipline, accountability, and process improvements throughout the company. These are certainly exciting times for us.

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

Q&A

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Jaeson Schmidt with Lake Street Capital Markets.

Jaeson Schmidt: Congrats on the strong finish to the year and really strong outlook. I know in your prepared remarks, you mentioned that you expect growth across all your segments. Just curious if you could let us know what end market you feel most confident on? And I guess relatedly, which end market do you think is the biggest risk?

Nick Grant: Jason thanks for the comments. I'm really pleased with the results last year. We do anticipate our technology divisions will drive growth in 2023. Different product platforms serving different markets with our innovation should continue to create demand. So as for which segments, we believe the automotive/EV will be a nice segment for us, and just a reminder, that does not include our silicon carbide crystal growth solutions. Those are in our semi segment. We do believe front-end semi will be strong again in 2023, and our Life Science applications should also continue to grow. So, we're pretty excited. We believe we've got the right target markets we're going after. We've got the right products. And yes, we have the right teams in place.

Jaeson Schmidt: Okay. That's helpful. And then just as a follow-up. Your comments on the semi market or expectation for the semi market to moderate in the second half. I was just curious if that is what your customers are telling you that they will need this digestion period or if you guys are being a bit more conservative just given the momentum you expect here in the first half?

Nick Grant: We're working closely with our customers for timing on when these CapEx projects actually get funded. There is still a bit unknown, like whether they slip a quarter or two. So, we don't want to throw something out there that we're not confident we can achieve.

Operator: Our next question comes from the line of Ted Jackson with Northland Securities.