Zacks Small-Cap Research

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inTEST Corporation (INTT-NASDAQ)

INTT: Focus on Valuation- OUTPERFORM

OUTLOOK

This is a brief overview of inTEST that focuses on valuation. For an in depth look at the company please see our research report dated March 31, 2011.

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	07/27/2010
Current Price (05/02/11)	$3.98
Target Price	**$7.00**

SUMMARY DATA

52-Week High	**$4.54**
52-Week Low	**$2.24**
One-Year Return (%)	**4.74**
Beta	**1.24**
Average Daily Volume (sh)	**62,887**
Shares Outstanding (mil)	**10**
Market Capitalization ($mil)	**$41**
Short Interest Ratio (days)	**1.84**
Institutional Ownership (%)	**14**
Insider Ownership (%)	**22**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**-14.8**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**5.5**
P/E using 2011 Estimate	**5.1**
P/E using 2012 Estimate	**4.6**
Zacks Rank	**3**

Risk Level	**Moderate**
Type of Stock	**Small-Blend**
Industry	**Semiconductor-IC**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2009	4.4 A	4.7 A	6.0 A	8.4 A	23.5 A
2010	9.5 A	15.3 A	11.3 A	10.1 A	46.2 A
2011	11.9 E	12.2 E	12.9 E	13.0 E	50.0 E
2012					55.0 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2009	-$0.28 A	-$0.17 A	-$0.03 A	$0.04 A	-$0.44 A
2010	$0.11 A	$0.31 A	$0.17 A	$0.13 A	$0.72 A
2011	$0.15 E	$0.19 E	$0.22 E	$0.22 E	$0.78 E
2012					$0.86 E

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OVERVIEW

Three Ways to Value inTEST

Executive Summary
inTEST Corporation is a designer, manufacturer and marketer of mechanical, thermal and electrical products that are used by semiconductor manufacturers in conjunction with automatic test equipment, (ATE), in the testing of integrated circuits, (ICs). Beyond its blue chip portfolio of semiconductor manufacturers, the acquisition of Sigma has propelled the firm to diversify into non-semi thermal testing products. This has the effect of diversifying revenues and opens the company up to new markets. In the test equipment world change is good; be it the broad switch to mobile computing, the march to finer geometries, or the growth of electronic content in automobiles more chip content means more testing for inTEST.

Bullish signs

- **Complexity in chips increasing. As chips get smaller and more complex testing is more important.**
- **Chip content spread out over mobile phone, automobile, industrial goods rather than corporate IT.**
- **Semiconductor market outlook is solid, not on par with 2010, yet still expect growth**
- **Non-semiconductor business has potential for growth as well as revenue diversification.**

Bearish Signs

- **More consumers in semiconductor than ever before. Pressure of macro economy weakness. (although many items price under $1,000.00)**
- **Firm is subject to the cyclical nature of the semiconductor equipment industry. Until non-semiconductor is large enough to offset.**

1.) Enterprise Multiple

The enterprise multiple looks at a firm as a potential acquirer would, because it takes debt into account - an item which other multiples like the P/E ratio do not include. Enterprise value is calculated as market cap plus debt, minority interest and preferred shares, minus total cash and cash equivalents. The Firm's Enterprise multiple is 4.24x compared to 7.88x for the industry. **According to the enterprise multiple INTT appears undervalued compared to industry.**

$$\text{Enterprise Multiple} = \frac{\text{Enterprise Value}}{\text{EBITDA}}$$

Metric	inTEST	Industry Average
EV/EBITDA	4.24	7.88

2. Two Stage Free Cash Flow to Equity Model

FCFE = Net Income - Net Capital Expenditure - Change in Net Working Capital + New Debt - Debt Repayment

Assumptions

- The firm is expected to grow at a higher growth rate in the first period.
- The growth rate will drop at the end of the first period to the stable growth rate.
- The free cash flow to equity is the correct measure of expected cash flows to stockholders. (rather than dividends)

Rationale for using the Model.

As the non-semiconductor business ramps up to 50% of total revenues we expect the firm to grow at a higher overall rate than the industry. As These products mature and the firm faces more competition we expect the growth rate to level off.

Weakness of the Model.

As you add more layers to the model it is more sensitive to the assumptions you make. The growth may look more “lumpy” than we have it in the model.

Output
We used the following inputs:

- A 5-year period with an earnings growth rate of 8.0% and a discount rate of 13.77%.
- A continuing period assumed to go on forever, with earnings growing at 6% and a discount rate of 13.05%.

With these inputs we arrive at a target price of $7.23.

According to the model, the firm appears undervalued.

3. Price to Earnings Multiples/ Price to Sales Multiples

Due to its simplicity the Price/Earnings ratio is easily the most widely used metric in all of finance. The first strength of the model is that it is intuitive. It is simply the price paid for current earnings. It can also act as a proxy for other firm characteristics such as risk and growth. There is a downside to the P/E ratio in that it has the potential to reflect investor's mood rather than the fundamentals of the firm. It also eliminates assumptions about risk, growth, and retention ratio (something discounted cash flow models account for.)

While not as popular as Price/Earnings or Price/BV, Price/Sales is not influenced by accounting decisions in depreciation, inventory and extraordinary charges. P/S multiples are much less volatile than P/E multiples. However if the problem with the firm lies in cost control the P/S ratio will not reflect this flaw.

The firm appears undervalued compared to the industry.

Metric	inTEST	Industry Average
P/E TTM	5.52	17.03
P/E 2011 (E)	5.10	14.80
P/E 2012 (E)	4.63	13-15
P/S	0.89	1.02

*source for background on valuation models: Investment Valuation, Aswath Damodaran

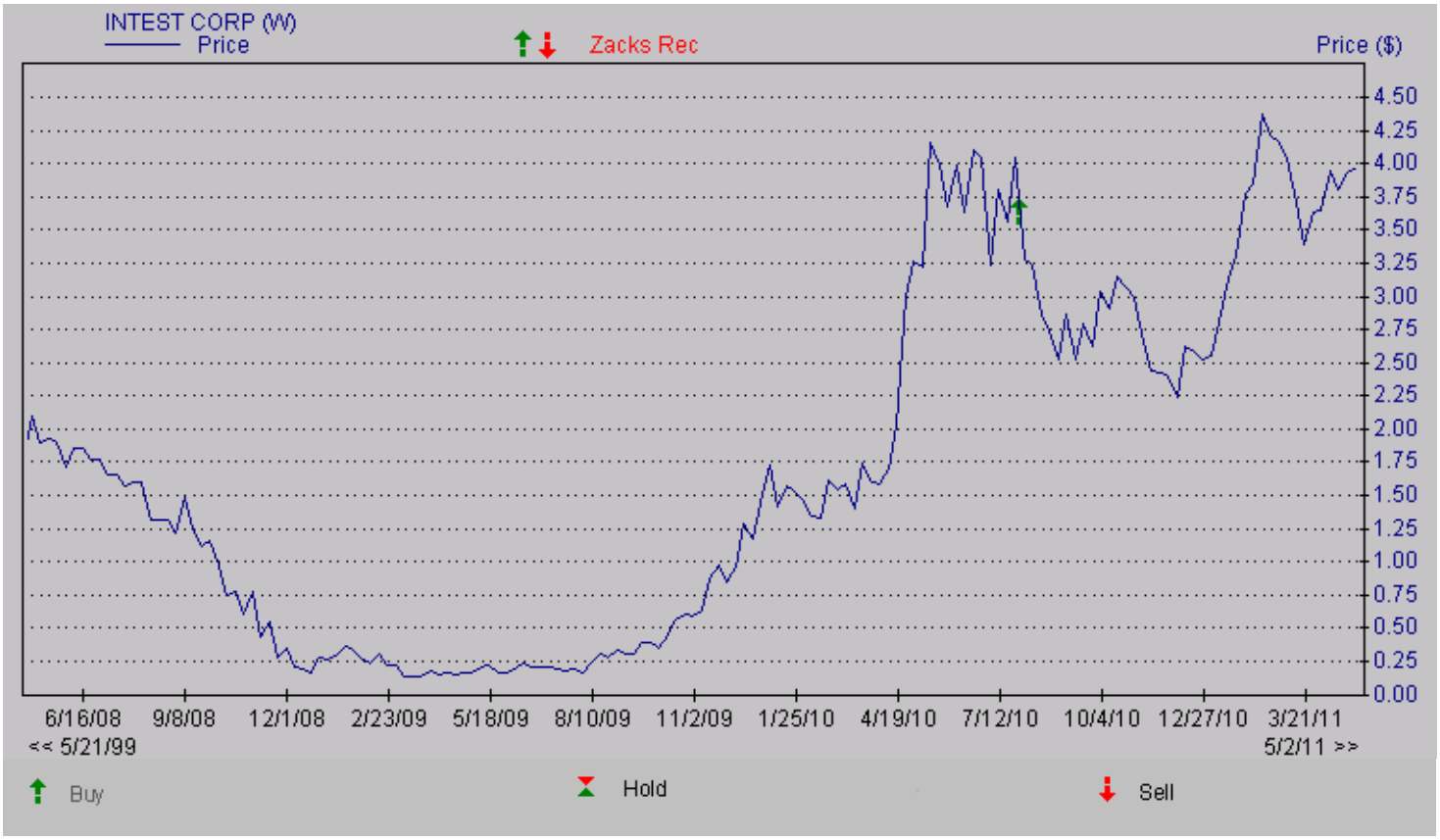
Our price target of $7.00 per share is the average of 8.65x our 2011 EPS estimate and our two stage model. We would add shares at these levels.

PROJECTED INCOME STATEMENT

INCOME STATEMENT ($ Millions)	Dec-09 Q409	Mar-10 Q1 10	Jun-10 Q2 10	Sep-10 Q3 10	Dec-10 Q4 10	Mar-11 Q1 11 E	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011 E	FY 2012 E
REVENUE												
Net Revenue	**8.42**	**9.53**	**15.26**	**11.31**	**10.11**	**11.90**	**48.7**	**38.8**	**23.5**	**46.2**	**50.0**	**55.0**
Sequential Growth		*13%*	*60%*	*-26%*	*-11%*	*18%*						
OPERATING EXPENSES												
Cost of Revenues	5.27	4.99	7.89	5.85	5.32	6.25	29.9	25.0	15.7	24.1	25.5	28.3
% of Revenue	*62.6%*	*52.4%*	*51.7%*	*51.8%*	*52.6%*	*52.5%*	*61.4%*	*64.4%*	*66.8%*	*52.1%*	*51.0%*	*51.5%*
Gross Profit -	**3.2**	**4.5**	**7.4**	**5.5**	**4.8**	**5.7**	**18.8**	**13.8**	**7.8**	**22.1**	**24.5**	**26.7**
Proforma Gross Margin	*37.4%*	*47.6%*	*48.3%*	*48.2%*	*47.4%*	*47.5%*	*38.6%*	*35.6%*	*33.2%*	*47.9%*	*49.0%*	*48.5%*
R&D + Engg	0.57	0.70	0.79	0.77	0.79	0.84	5.5	5.1	2.4	3.0	3.8	4.0
% of Revenue	*6.8%*	*7.4%*	*5.2%*	*6.8%*	*7.8%*	*7.1%*	*11.3%*	*13.0%*	*10.3%*	*6.6%*	*7.6%*	*7.3%*
SG&A	2.40	2.71	3.41	3.00	2.64	3.15	16.7	15.9	9.8	11.8	13	14
% of Revenue	*28.5%*	*28.4%*	*22.3%*	*26.5%*	*26.1%*	*26.5%*	*34.4%*	*41.1%*	*41.6%*	*25.4%*	*26.0%*	*25.5%*
GW Amort, Restructuring, other	-	-						-	-	-		
% of Revenue												
Total Operating Expenses	2.97	3.41	4.19	3.77	3.42	3.99	22.2	21.0	12.2	14.8	17	18
% of Revenue	*35.2%*	*35.8%*	*27.5%*	*33.3%*	*33.9%*	*33.5%*	*45.7%*	*54.1%*	*51.9%*	*32.0%*	*34%*	*33%*
Operating Income -	**0.18**	**1.13**	**3.17**	**1.69**	**1.36**	**1.66**	**-3.5**	**-7.2**	**-4.4**	**7.4**	**7.7**	**8.7**
Operating Margin	*2.2%*	*11.8%*	*20.8%*	*14.9%*	*13.5%*	*13.9%*	*-7%*	*-19%*	*-19%*	*16%*	*15%*	*16%*
NON-OPERATING ITEMS												
Non operating Income/Expense	-0.08	-0.01	-0.01	0.01	0.06	0.01	-3.0	-1.9	-0.5	0.1	0	0
% of Revenue	*-0.95%*	*-0.12%*	*-0.05%*	*0.07%*	*0.60%*	*0.07%*	*-6.12%*	*-4.80%*	*-2.17%*	*0.11%*	*0.24%*	*0.27%*
Tax Provision	0.0	0.0	0.0	0.0	0.1	0.2	0.050	0.270	-0.050	0.148	0.020	0.020
Effective Tax Rate												
Net Income -	**0.14**	**1.11**	**3.16**	**1.68**	**1.29**	**1.52**	**-6.49**	**-9.33**	**-4.83**	**7.25**	**7.8**	**8.8**
Net Income Margin	*1.7%*	*11.7%*	*20.7%*	*14.8%*	*12.8%*	*12.8%*	*-13.3%*	*-24.1%*	*-20.6%*	*15.7%*	*16%*	*16%*
EARNINGS PER SHARE												
EPS - Basic	$0.04	$0.11	$0.32	$0.17	$0.13	$0.15	$0.13	$0.15	-$0.42	$0.73	$0.78	$0.86
EPS - Diluted	$0.04	$0.11	$0.31	$0.17	$0.13	$0.15	$0.11	$0.14	-$0.42	$0.72	$0.78	$0.86

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