Q1 2024 Earnings Call

August 9, 2023
8:30am ET

Today's Hosts



Andrew Hider
Chief Executive Officer



Ryan McLeod
Chief Financial Officer

Forward Looking Statements

Note to Reader: This presentation and the oral statements made during this call contain certain statements that may constitute forward-looking information and forward-looking statements within the meaning of applicable Canadian and United States securities laws ("forward-looking statements"). All such statements are made pursuant to the "safe harbour" provisions of Canadian provincial and territorial securities laws and the U.S. *Private Securities Litigation Reform Act of 1995*. Forward-looking statements include all statements that are not historical facts regarding possible events, conditions or results of operations that ATS believes, expects or anticipates will or may occur in the future, including, but not limited to: outlook in our markets, including macro-economic environment impacts; order funnel; value creation strategy; margin expansion; ABM; disciplined acquisitions; various market opportunities for ATS; expanding in emerging markets; and Order Backlog to revenue conversion rate. Such forward-looking statements are inherently subject to significant known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of ATS, or developments in ATS' business or in its industry, to differ materially from the anticipated results, performance, achievements or developments expressed or implied by such forward-looking statements. Important risks, uncertainties and factors that could cause actual results to differ materially from expectations expressed in the forward-looking statements include, but are not limited to, the impact of regional or global conflicts; general market performance including capital market conditions and availability and cost of credit; performance of the markets that ATS serves; industry challenges in securing the supply of labour, materials, and, in certain jurisdictions, energy sources such as natural gas; impact of inflation; interest rate changes; foreign currency and exchange risk; the relative strength of the Canadian dollar; risks related to customer concentration; risks related to a recession, slowdown, and/or sustained downturn in the economy; impact of factors such as increased pricing pressure, increased cost of energy and supplies, and delays in relation thereto, and possible margin compression; the regulatory and tax environment; emergence of new infectious diseases and pandemics, including the potential resurgence of COVID-19 and/or new strains of COVID-19 and collateral consequences thereof; the effect of events involving limited liquidity, defaults, non-performance or other adverse developments that affect financial institutions, transaction counterparties, or other companies in the financial services industry generally, or concerns or rumours about any events of these kinds or other similar risks, have in the past and may in the future lead to market-wide liquidity problems; energy shortages and global price increases; ATS is unable to expand in emerging markets, or is delayed in relation thereto, due to any number of reasons, including inability to effectively execute organic or inorganic expansion plans, focus on other business priorities, or local government, regulations or delays; success and impact of the initiatives that ATS is undertaking; variations in the amount of Order Backlog completed in any given quarter; that efforts to expand adjusted earnings from operations margin over long-term is unsuccessful due to any number of reasons, including less than anticipated increase in after-sales service revenues or reduced margins attached to those revenues, less than expected growth of its product portfolio, inability to achieve lower costs through supply chain management, failure to develop, adopt internally, or have customers adopt, standardized platforms and technologies, inability to maintain current cost structure if revenues were to grow, and failure of ABM to impact margins; and other risks and uncertainties detailed from time to time in ATS' filings with securities regulators, including, without limitation, the risk factors described in ATS' annual information form for the fiscal year ended March 31, 2023, which are available on the System for Electronic Document Analysis and Retrieval ("SEDAR+") at www.sedarplus.com and on the U.S. Securities Exchange Commission's Electronic Data Gathering, Analysis and Retrieval System ("EDGAR") at www.sec.gov. ATS has attempted to identify important factors that could cause actual results to materially differ from current expectations, however, there may be other factors that cause actual results to differ materially from such expectations. Forward-looking statements are necessarily based on a number of estimates, factors and assumptions regarding, among others, management's current plans, estimates, projections, beliefs and opinions, the future performance and results of the Company's business and operations; assumption of successful implementation of margin improvement initiative; and general economic conditions and global events, including the COVID-19 pandemic. Forward-looking statements included in this presentation are only provided to understand management's current expectations relating to future periods and, as such, are not appropriate for any other purpose. Although ATS believes that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks and

Non-IFRS and Other Financial Measures

Throughout this presentation management uses certain non-IFRS financial measures, non-IFRS ratios and supplementary financial measures to evaluate the performance of the Company. The terms “EBITDA”, “organic revenue”, “adjusted net income”, “adjusted earnings from operations”, “adjusted EBITDA”, “adjusted basic earnings per share”, and “free cash flow”, are non-IFRS financial measures, “adjusted earnings from operations margin”, “organic revenue growth”, "non-cash working capital as a percentage of revenues", and “net debt to adjusted EBITDA” are non-IFRS ratios, and "operating margin", “Order Bookings”, “Order Backlog”, and “book-to-bill ratio” are supplementary financial measures, all of which do not have any standardized meaning prescribed within International Financial Reporting Standards ("IFRS") and therefore may not be comparable to similar measures presented by other companies. Such measures should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. In addition, management uses “earnings from operations”, which is an additional IFRS measure, to evaluate the performance of the Company. Earnings from operations is presented on the Company’s consolidated statements of income as net income excluding income tax expense and net finance costs. Operating margin is an expression of the Company’s earnings from operations as a percentage of revenues. EBITDA is defined as earnings from operations excluding depreciation and amortization. Organic revenue is defined as revenues in the stated period excluding revenues from acquired companies for which the acquired company was not a part of the consolidated group in the comparable prior period. Organic revenue growth compares the stated period organic revenue with the reported revenue of the comparable period. Adjusted earnings from operations is defined as earnings from operations before items excluded from management’s internal analysis of operating results, such as amortization expense of acquisition-related intangible assets, acquisition-related transaction and integration costs, restructuring charges, the mark-to-market adjustment on stock based compensation and certain other adjustments which would be non-recurring in nature (“adjustment items”). Adjusted earnings from operations margin is an expression of the Company’s adjusted earnings from operations as a percentage of revenues. Adjusted EBITDA is defined as adjusted earnings from operations excluding depreciation and amortization. Adjusted basic earnings per share is defined as adjusted net income on a basic per share basis, where adjusted net income is defined as adjusted earnings from operations less net finance costs and income tax expense, plus tax effects of adjustment items and adjusted for other significant items of a non-recurring nature. Non-cash working capital as a percentage of revenues is defined as the sum of accounts receivable, contract assets, inventories, deposits, prepaids and other assets, less accounts payable, accrued liabilities, provisions and contract liabilities divided by the trailing two fiscal quarter revenues annualized. Free cash flow is defined as cash provided by operating activities less property, plant and equipment and intangible asset expenditures. Net debt to adjusted EBITDA is the ratio of the net debt of the Company (cash and cash equivalents less bank indebtedness, long-term debt, and lease liabilities) to adjusted EBITDA. Order Bookings represent new orders for the supply of automation systems, services and products that management believes are firm. Order Backlog is the estimated unearned portion of revenues on customer contracts that are in process and have not been completed at the specified date. Book to bill ratio is a measure of Order Bookings compared to revenue.

Following amendments to ATS’ Restricted Stock Unit ("RSU") Plan in 2022 to provide for settlement in shares purchased in the open market and the creation of the employee benefit trust to facilitate such settlement, ATS began to account for equity-settled RSUs using the equity method of accounting. However, prior RSU grants which will be cash-settled and deferred stock unit ("DSU") grants which will be cash-settled are accounted for as described in the Company's annual consolidated financial statements and have significant volatility period over period based on the fluctuating price of ATS’ common shares. As a result, certain Non-IFRS Financial Measures (EBITDA, adjusted EBITDA, net debt to adjusted EBITDA, adjusted earnings from operations and adjusted basic earnings per share) were revised from previously disclosed values to exclude the impact on stock-based compensation expense of the revaluation of DSUs and RSUs resulting specifically from the change in market price of the Company's shares between periods. Management believes that this adjustment provides further insight into the Company's performance, as share price volatility drives variability in the Company's stock-based compensation expense.

Earnings from operations, adjusted earnings from operations, operating margin, EBITDA and adjusted EBITDA are used by the Company to evaluate the performance of its operations. Management believes that earnings from operations is an important indicator in measuring the performance of the Company’s operations on a pre-tax basis and without consideration as to how the Company finances its operations. Management believes that organic revenue and organic revenue growth, when considered with IFRS measures, allow the Company to better measure the Company’s performance and evaluate long-term performance trends. Organic revenue growth also facilitates easier comparisons of the Company’s performance with prior and future periods and relative comparisons to its peers. Management believes that EBITDA and adjusted EBITDA are important indicators of the Company’s ability to generate operating cash flows to fund continued investment in its operations. Management believes that adjusted earnings from operations, adjusted earnings from operations margin, adjusted EBITDA and adjusted basic earnings per share are important measures to increase comparability of performance between periods. The adjustment items used by management to arrive at these metrics are not considered to be indicative of the business’ ongoing operating performance. Management uses the measure "non-cash working capital as a percentage of revenues" to assess overall liquidity. Free cash flow is used by the Company to measure cash flow from operations after investment in property, plant and equipment and intangible assets. Management uses net debt to adjusted EBITDA as a measurement of leverage of the Company. Order Bookings provide an indication of the Company’s ability to secure new orders for work during a specified period, while Order Backlog provides a measure of the value of Order Bookings that have not been completed at a specified point in time. Both Order Bookings and Order Backlog are indicators of future revenues that the Company expects to generate based on contracts that management believes to be firm. Book to bill ratio is used to measure the Company’s ability and timeliness to convert Order Bookings into revenues. Management believes that ATS shareholders and potential investors in ATS use these additional IFRS measures and non-IFRS financial measures in making investment decisions and measuring operational results.

A reconciliation of Order Bookings and Order Backlog to total Company revenues is contained in this presentation. A reconciliation of (i) EBITDA and adjusted EBITDA to earnings from operations and net income, (ii) adjusted earnings from operations to earnings from operations and net income, (iii) adjusted basic earnings per share to basic earnings per share, (iv) free cash flow (v) organic revenue to revenue (vi) net debt and (vii) net debt to adjusted EBITDA to their IFRS measure components in each case is contained in this presentation.

Q1 2024 Highlights

Strong start to fiscal 2024, including record revenues and a 1.18x TTM book-to-bill ratio[1]

- Completed U.S. IPO, ATS listed on New York Stock Exchange in support of growth objectives
- Q1 Order Bookings[1] (down ~6% y/y) to $690MM
- Order Backlog[1] (up ~30% y/y) to $2,023MM
- Record Q1 revenues (up ~23% y/y) to $753.6MM
- Q1 Adj. Earnings from Operations[1] (up ~29% y/y) to $102.1 million, 13.5% margin[1] (up 58 bps y/y)
- Enhanced capabilities in AI process optimization and digitalization services through acquisition

1. Book-to-bill ratio, Order Bookings, Order Backlog, and Adjusted Earnings from Operations are Non-IFRS Financial Measures - See "Non-IFRS and Other Financial Measures" and "Appendix: Reconciliation of Non-IFRS Measures to IFRS Measures"

Outlook

- Order Backlog[1] in our key markets provides a strong base for fiscal 2024
  - **Life Sciences** $783MM: funnel remains strong with focus on pharmaceuticals, radiopharmaceuticals, medical devices, including auto-fillers and auto-injectors
  - **Transportation** $834MM: funnel remains strong and contains large strategic EV opportunities; ATS is an industry leader in battery pack assembly automation
  - **Food and Beverage** $188MM: funnel remains strong with interest in energy-efficient solutions; seasonality can create some variability in Order Bookings[1]
  - **Consumer** $134MM: funnel stable; inflationary pressures can impact timing of customer decisions
  - **Energy** $84MM, includes longer-term opportunities in the nuclear industry
- We are uniquely positioned to assist customers facing inflation, supply chain, labour, and energy challenges
- ATS Business Model driving all parts of ATS forward as the playbook for continuous improvement

1. Order Backlog and Order Bookings are Non-IFRS Financial Measures - *See "Non-IFRS and Other Financial Measures"* and *"Appendix: Reconciliation of Non-IFRS Measures to IFRS Measures"*

Financial Results

(C$ mm, except per share data)	Q1 F2024	Q1 F2023	Y/Y Change ($)	Y/Y Change (%)
Revenues	**$753.6**	$610.6	$143.0	**23.4%**
Earnings from operations	**79.0**	61.6	17.4	**28.2%**
Adjusted earnings from operations[1, 3]	**102.1**	79.2	22.9	**28.9%**
EBITDA[1]	**114.7**	95.2	19.5	**20.5%**
Adjusted EBITDA[1, 3]	**119.2**	92.5	26.7	**28.9%**
Net income	**47.7**	39.4	8.3	**21.1%**
Basic earnings per share	**0.50**	0.43	0.07	**16.3%**
Adjusted basic earnings per share[1, 3]	**0.69**	0.57	0.12	**21.1%**
Cash Flow from Operations	**(107.8)**	(31.7)	(76.1)	**(240.1)%**
Free Cash Flow[1]	**(130.8)**	(44.1)	(86.7)	**(196.6)%**
Net debt to adjusted EBITDA[1, 3]	**2.0x**	2.8x		

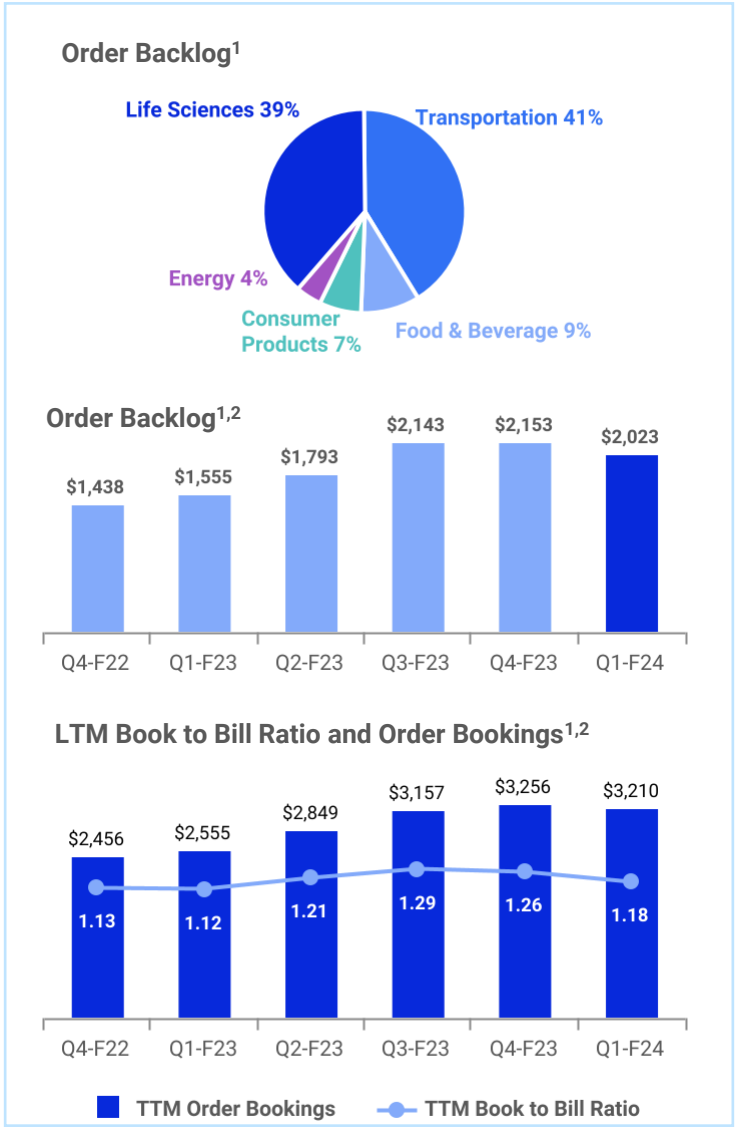
Revenue Growth:

	QTD
Organic	15.4 %
Acquisitions	2.5 %
FX	5.5 %
Total	23.4 %

U.S. IPO Supports Strategic Growth:

6,900,000 common shares sold for gross proceeds of U.S. $282.9 million

- Q2 F24 Order Backlog to Revenue conversion estimate 34% to 37%



1. Adjusted Earnings from Operations, EBITDA, Adjusted EBITDA, Adjusted Basic Earnings per Share, Free Cash Flow, Net Debt to Adjusted EBITDA, Order Backlog and Order Bookings are Non-IFRS Financial Measures - *See "Non-IFRS and Other Financial Measures"* and *"Appendix: Reconciliation of Non-IFRS Measures to IFRS Measures"* 2. Order Backlog in C$ mm. 3. The composition of certain non-IFRS measures for Q1 F2023 were revised at Q4 F2023 to exclude the impact of stock-based compensation expense caused by mark-to-market impacts from changes in the Company's share price.

Summary

- Record revenues, adjusted earnings[1] in line with our expectations, strong Order Backlog[1] and Order Bookings[1]
- Estimated Q2-F24 Order Backlog[1]-to-revenue conversion 34% to 37%
- No change to outlook in strategic end-markets
- Two recent acquisitions finalized, previous acquisitions adding value and new innovations adding capabilities
- ABM continues to mature and drive competitive advantage

1. Adjusted Earnings, Order Backlog and Order Bookings are Non-IFRS Financial Measures - See "*Non-IFRS and Other Financial Measures*" and "*Appendix: Reconciliation of Non-IFRS Measures to IFRS Measures*"

Questions

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Appendix

Reconciliation of Non-IFRS Measures to IFRS Measures



Appendix: Reconciliation of Non-IFRS Measures to IFRS Measures

The following table reconciles adjusted EBITDA and EBITDA to the most directly comparable IFRS measure (net income) (in millions of dollars):

(C$ mm)	Q1 F2024	Q1 F2023
Adjusted EBITDA	**$119.2**	**$92.5**
Acquisition-related transaction costs	0.1	0.4
Acquisition-related inventory fair value charges	—	5.2
Mark to market portion of stock based compensation	4.4	(8.3)
EBITDA	**114.7**	**95.2**
Less: depreciation and amortization expense	35.7	33.6
Earnings from operations	**79.0**	**61.6**
Less: net finance costs	16.9	10.7
Less: provision for income taxes	14.4	11.5
Net income	**47.7**	**39.4**

The following table reconciles organic revenue to the most directly comparable IFRS measure (revenue) (in millions of dollars):

(C$ mm)	Q1 F2024	Q1 F2023
Organic revenue	$704.7	$538.6
Revenues of acquired companies	15.3	87.2
FX impact	33.6	(15.2)
Total revenue	**753.6**	**610.6**
Organic revenue growth	**15.4%**	

(C$ mm)	Q4 F2022	Q1 F2023	Q2 F2023	Q3 F2023	Q4 F2023	Q1 F2024
LTM Order Bookings	$2,456	$2,555	$2,849	$3,157	$3,256	$3,210
LTM Revenues	2,183	2,283	2,350	2,450	2,577	2,720
LTM Book to Bill	**1.13**	**1.12**	**1.21**	**1.29**	**1.26**	**1.18**

Order Backlog Continuity (in millions of dollars)

(C$ mm)	Q4 F2022	Q1 F2023	Q2 F2023	Q3 F2023	Q4 F2023	Q1 F2024
Opening Order Backlog	$1,475	$1,438	$1,555	$1,793	$2,143	$2,153
Revenues	(603)	(611)	(589)	(647)	(731)	(754)
Order Bookings	638	736	804	979	737	690
Order Backlog Adjustments	(72)	(8)	23	18	4	(66)
Ending Order Backlog	**1,438**	**1,555**	**1,793**	**2,143**	**2,153**	**2,023**

Appendix: Reconciliation of Non-IFRS Measures to IFRS Measures

The following table reconciles adjusted earnings from operations to the most directly comparable IFRS measures (net income) (in millions of dollars):

(C$ mm)	Q1 F2024	Q1 F2023
Adjusted earnings from operations	**$102.1**	**$79.2**
Acquisition-related transaction costs	0.1	0.4
Amortization of acquisition-related intangible assets	18.6	20.3
Acquisition-related inventory fair value charges	—	5.2
Mark to market portion of stock based compensation	4.4	(8.3)
Earnings from operations	**79.0**	**61.6**
Less: net finance costs	16.9	10.7
Less: provision for income taxes	14.4	11.5
Net income	**47.7**	**39.4**

The following table reconciles adjusted basic earnings per share to the most directly comparable IFRS measure (basic earnings per share):

(C$)	Q1 F2024	Q1 F2023
Basic earnings per share	**$0.50**	**$0.43**
Amortization of acquisition-related intangible assets	0.20	0.22
Acquisition-related inventory fair value charges	—	0.06
Mark to market portion of stock based compensation	0.05	(0.09)
	0.75	**0.62**
Less: adjustment to provision for income taxes	(0.06)	(0.05)
Adjusted basic earnings per share	**0.69**	**0.57**

Appendix: Reconciliation of Non-IFRS Measures to IFRS Measures

The following table reconciles net debt to adjusted EBITDA to the most directly comparable IFRS measure (in millions of dollars):

(C$ mm)	F2023	F2024
Cash and cash equivalents	$159.9	$123.5
Bank indebtedness	(5.8)	(3.4)
Current portion of long-term debt	(0.1)	(0.1)
Long-term debt	(1,155.7)	(880.7)
Net cash (debt) prior to IFRS 16	(1,001.7)	(760.7)
Lease liabilities	(97.3)	(95.8)
Net cash (debt)	**(1,099.0)**	**(856.5)**

(C$ mm)	F2023	F2024
Net Debt	$(1,099.0)	$(856.5)
Adjusted EBITDA (LTM)	401.2	427.9
Historical Leverage (Net Debt/Adj. EBITDA)	**2.7x**	**2.0x**

The following table reconciles free cash flow to the most directly comparable IFRS measure (in millions of dollars):

(C$ mm)	Q1 F2024	Q1 F2023
Cash flows used in operating activities	$(107.8)	$(31.7)
Acquisition of property, plant and equipment	(18.6)	(7.5)
Acquisition of intangible assets	(4.4)	(4.9)
Free cash flow	**(130.8)**	**(44.1)**

Appendix: Reconciliation of Non-IFRS Measures to IFRS Measures

The following table reconciles the previously reported non-IFRS financial measures to reflect the exclusion of the stock-based compensation revaluation expenses:

(C$ mm)	Q2 F2022	Q3 F2022	Q4 F2022	Q1 F2023	Q2 F2023	Q3 F2023	Q4 F2023	Q1 F2024
Total stock-based compensation expense	$10.5	$12.7	$0.8	$(4.0)	$5.3	$9.9	$19.3	$10.0
Less: Mark to market portion of stock-based compensation	6.1	7.3	(4.2)	(8.3)	1.0	5.6	15.1	4.4
Base stock-based compensation expense	**$4.4**	**$5.4**	**$5.0**	**$4.3**	**$4.3**	**$4.3**	**$4.2**	**$5.6**

The following table reconciles the previously reported non-IFRS financial measures to reflect the exclusion of the stock-based compensation revaluation expenses:

(C$ mm)	Q2 F2022	Q3 F2022	Q4 F2022	Q1 F2023	Q2 F2023	Q3 F2023
Previously reported: adjusted earnings from operations	$70.7	$70.4	$85.8	$87.5	$75.1	$80.6
Mark to market portion of stock-based compensation	6.1	7.3	(4.2)	(8.3)	1.0	5.6
Revised: adjusted earnings from operations	**76.8**	**77.7**	**81.6**	**79.2**	**76.1**	**86.2**
Previously reported: adjusted EBITDA	83.3	83.5	99.1	100.8	88.8	95.1
Mark to market portion of stock-based compensation	6.1	7.3	(4.2)	(8.3)	1.0	5.6
Revised: adjusted EBITDA	**89.4**	**90.8**	**94.9**	**92.5**	**89.8**	**100.7**
Previously reported: adjusted basic earnings per share	0.53	0.52	0.64	0.64	0.50	0.52
Mark to market portion of stock-based compensation	0.07	0.08	(0.05)	(0.09)	0.01	0.06
Tax impact of mark to market portion of stock-based compensation	(0.01)	(0.02)	0.01	0.02	—	(0.02)
Revised: adjusted basic earnings per share	**0.59**	**0.58**	**0.60**	**0.57**	**0.51**	**0.56**