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Earnings Call

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Presentation

Operator

Ladies and gentlemen, welcome to the ATS Corporation Second Quarter Conference Call and Webcast. This call is being recorded on November 8, 2023 at 8:30 a.m. Eastern Time. Following the presentation, we will conduct a question-and-answer session.

I'll now turn the call over to David Galison, Head of Investor Relations at ATS.

David Galison
Head of Investor Relations

Thank you, operator, and good morning, everyone. On the call today are Andrew Hider, Chief Executive Officer of ATS; and Ryan McLeod, Chief Financial Officer. Please note that our remarks today are accompanied by a slide deck, which can be viewed via our webcast and available at atsautomation.com. We cautioned that the statements made on the webcast and conference call may contain forward-looking

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information and our cautionary statement regarding such information, including the material factors that could cause actual results to differ materially from the statements and the material factors or assumptions applied in making the statements are detailed on Slide 2 of the slide deck.

Now it's my pleasure to turn the call over to Andrew.

Andrew P. Hider
CEO & Director

Thank you, David. Good morning, everyone, and thank you for joining us. Today, we reported another successful quarter headlined by solid and diversified order bookings, organic revenue growth and strong execution across our business. Consistent with our strategy, we announced 2 acquisitions, which are expected to expand our capabilities in key areas, including biomedical research and digital. The quarter also featured our Institutional Investor Day in IWK's 130th anniversary of providing specialized packaging solutions for global customers in pharma and consumer products. I will update you on the business and markets and then Ryan will provide his financial report.

Starting with our financial value drivers. Order bookings for the quarter were $742 million, which included growth in life sciences, consumer products and energy and solid bookings in our transportation and food and beverage verticals. Our trailing 12-month book-to-bill ratio at the end of the quarter was $1.10 1 Q2 revenues were $736 million, up 25% in Q2 last year, including organic growth of 16%. Adjusted earnings from operations in Q2 were $98 million, up 29% versus Q2 last year. Moving to our outlook. Order bookings included new orders across all markets, particularly in life sciences and EV. Our backlog remained consistent versus last quarter at over $2 billion despite the revenue ramp-up on our EV projects and normal project execution in other areas. By market, the life sciences funnel remains strong and backlog was $857 million, up 10% compared to Q2 last year. We secured key orders in several areas of our important submarkets, including medical devices. Our Symphoni platform supported key wins as did our track record for quality and on-time delivery.

In radiopharma, co-mature successfully secured several new orders. We remain positioned as a leader in its space. All of our life sciences businesses are focused on identifying opportunities to provide expanded or integrated solutions to our customers. Transportation and GAAP backlog was $736 million, up 20% year-over-year. Our OEM EV programs continue to be executed well. We remain on track from a cost and timing perspective. Recent labor disruptions in the automotive industry have not materially affected our performance or our ability to serve our customers. In the short term, consumer demand may influence the timing of OEM investments. However, our outlook has not changed, and our transportation funnel remains strong. reflects diversified long-term opportunities with additional investments in production capacity will be required to restated EV production targets.

In Fluid & Beverage, we saw a strong finish for the tomato harvest season for both CFT and [Indiscernible]. Customer interest is growing for our recently developed opportunity optical sorting product, which leverages AI and a patented feed system, enabling improved productivity and higher quality inspection for the food and beverage funnel remains strong. In energy, the funnel remains strong and contained several long-term opportunities in the nuclear space. This market remains active, both in Canada and globally for new plant and refurbishment projects, small module reactors and decommissioning opportunities. We remain well positioned based on our demonstrated experience in these markets. In Consumer Products, our funnel remains stable. However, inflationary pressures continue to have an effect on discretionary spending in the personal care markets, which may impact timing of some customer investments.

On after sales services, we are delivering value to our customers through partnerships dedicated to achieving the highest level of asset performance over the entire life cycle of the equipment. Through expanded core and digitally enabled service offerings, we are also building recurring revenue streams for ATS. The continued expansion of regional networks enables us to provide dedicated service teams and spare parts to the regions in which we operate. On digital, the ongoing shift to digital accessibility to the

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cloud provides opportunities for growth as we work with customers to collect, visualize and analyze data and ultimately optimize performance across all markets we serve. On supply chain, material cost pressure eased in Q2 for some categories, but not all, and lead times remain extended. We have consistently distracted our ability to operate in a dynamic environment with longer lead times, and we remain prepared to do so.

Our supply chain teams are focused on daily visual management, including enhanced tools and deployed 11 AVM events in Q2, including purchase price variance and value engineering Kaizen and workshops. Across all business groups and geographies, we completed 40 ABM events during the quarter and ran 5 problem-solving workshops with over 100 participants. As we highlighted during our Investor Day, CFT has leveraged all aspects of the ATS business model, which has helped to generate a more than 500 basis point improvement in adjusted EBIT margin since acquisition. Our most recently acquired businesses are also making good progress in implementing the ABM. On M&A, we closed the acquisition of Odyssey in early July and announced the acquisition of Avidity in September. Fit is expected to complement and expand our products and services and customer base. It is a natural fit alongside BioDot and S&P. In addition to strong recurring revenue, Avidity is accretive to ATS' gross margins and adjusted EBIT margins. Our M&A funnel remains active, healthy and diversified across both large and small opportunities. As always, we remain disciplined in our assessment of targets.

On ESG, we recently released our fourth annual sustainability report. I encourage you to review the ways in which we are supporting our customers across the globe in their sustainability efforts and advancing our own ESG targets as responsible operators. On innovation, ongoing internal investment is supporting our talented teams in creating unique enabling solutions to drive customer value. A few highlights from the quarter. We launched a new SuperTrak PHARMA linear motor conveyor that allows the functionality of our highly successful super tract conveyors to be used in aseptic and clean room environments in the pharmaceutical industry. During our Life Sciences Annual at Day at Chicago, we highlighted the ATS Flex feeder solution, which is designed to improve our ability to deliver projects using Symphoni technology quickly and at a lower cost.

On Green Energy Solutions, our ATS industrial automation team developed new equipment used in the production of high-capacity fuel cells. And in Food and Beverage, our [Comac] team is bringing a new high-speed inline pellet checker to our customers in the brewing industry to reduce lost product. In summary, we are pleased with Q2 performance and encouraged by strong order bookings and our opportunity funnel. Our results demonstrate the strength and diversification of our portfolio and offerings and the dedication of our global teams. As we execute on our backlog, we will continue to move forward with our strategy while building flexibility into our business. This will be assisted by our ABM as we deliver results for our customers and our shareholders.

Now I will turn the call over to Ron. Ryan, over to you.

Ryan McLeod
Chief Financial Officer

Thank you, Andrew, and good morning, everyone. This quarter, ATS delivered strong results as we remain focused on executing across our businesses and pursuing our value creation objectives. Beginning with orders. Order bookings were $742 million, down 7.7% compared to Q2 last year, which included a USD 167 million EVR. Excluding transportation, we saw year-over-year growth in all other markets, including strong organic growth in life sciences. And once again, our teams delivered a top 5 order bookings quarter over ATS' 45-year history. Q2 revenues were $736 million, up 24.9% over Q2 last year. Organic revenue growth was 16.4% year-over-year, primarily based on stages of project execution on our large EV battery programs. Recently acquired companies added approximately 2% to revenue growth and foreign exchange translation had a positive impact of 6% compared to Q2 last year. We finished Q2 with order backlog of just over $2 billion, 12% higher than Q2 last year.

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Looking ahead, our revenue conversion for Q3 is estimated to be in the 34% to 37% range of backlog. This assessment is made every quarter based on revenue expectations from existing backlog and new orders booked and billed within the quarter. Moving to earnings. Q2 adjusted earnings from operations were $98.3 million, up 29% from Q2 last year, primarily due to revenue growth, partially offset by higher SG&A costs. Adjusted earnings from operations margin was 13.4% in the quarter, up 44 basis points compared to last year, reflecting improved operating leverage. Our Q2 gross margin, excluding acquisitionrelated inventory fair value charges, was 28.3%, up 20 basis points from Q2 last year. The year-over-year increase primarily reflected improved mix with continued good program execution.

On supply chain, price volatility still exists though variances are more muted than last year. Inflationary pressures in some cost categories are trending downward, particularly for certain categories of raw materials and freight. Lead times remain extended in key areas while our suppliers work to rebalance their production capacity and inventory levels. As I've noted on previous calls, longer lead times impact our ability to drive efficiency in our supply chain in the short term. Moving to SG&A. Expenses were $20.1 million higher than Q2 last year and included $16.1 million of acquisition-related amortization and $1.2 million of acquisition-related transaction costs. Excluding these comparable items in both periods, Q2's SG&A was $104.6 million, $19.7 million higher than last year, primarily due to increased employee costs, incremental SG&A expenses from acquisitions and foreign exchange translation impacts.

Stock-based compensation expense for Q2 was $3.5 million, a decrease of $1.8 million from last year's expense. Excluding the mark-to-market impact related to changes in our share price, stock-based compensation expenses were $5.5 million in Q2 compared to an expense of $4.3 million last year. On earnings per share, our EPS was $0.51 in Q2, up 59% over last year. Our adjusted EPS was up 23.5% to $0.63 in Q2 primarily reflecting growth in revenues. As part of our periodic assessment of operations, we have identified opportunities in certain parts of the business to improve our cost structure and reallocate capital in support of our strategic growth plans. We expect these targeted cost reductions will allow us to invest further into accelerating growth in areas of the business that provide opportunity for higher returns. The estimated cost of these efforts is expected to be $15 million to $20 million, with the majority of costs incurred in the third fiscal quarter.

Moving to the balance sheet. In Q2, cash flows generated by operating activities were $8.5 million, reflecting the timing of project progress and milestone billings and payments, primarily on our large EV programs. Noncash working capital as a percentage of revenue was 18.4% at the end of Q2, up from 15.6% at the end of Q1, again, primarily reflecting working capital investments in our large EV programs. Cash generation and period end working capital values can fluctuate depending on timing of billing milestone payments and execution of work on our larger programs. In the short term, we continue to expect working capital to remain variable. Total year-to-date investments in CapEx and intangible assets were $44.8 million, which included $21.8 million in Q2. This is on track to our planned fiscal '24 CapEx investment of $80 million to $100 million.

On leverage, our net debt to adjusted EBITDA ratio was 2.0:1 as of the end of Q2, down from 2.7:1 at Q4 of the prior fiscal year and in line with our target leverage range of 2 to 3x net debt to adjusted EBITDA. Lower leverage reflected net proceeds from our equity offering, which we used in Q1 to initially pay down amounts outstanding on our revolving senior secured line of credit. On M&A, subject to completion of regulatory reviews, we expect to complete the acquisition of Avidity in the third fiscal quarter. We intend to fund the acquisition with cash on hand and by drawing on our credit facility, at which point we expect leverage to rise to approximately the midpoint of the 2 to 3x range. And subsequent to quarter end and with the strong support from our lenders, we amended our credit facility to extend our term loan maturity to November of 2026, matching the maturity on our revolving line of credit.

In summary, we're pleased with the performance of our evolving portfolio and confident that our positions in our strategic end markets, combined with the evident value of the ATS business model will support long-term value creation. We continue to monitor macro level challenges, including rising interest rates and extended lead times in our supply chain, which we expect will take some time to decrease. In the

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meantime, strong order backlog in our key markets provides good revenue visibility over the next several quarters. Overall, we have the capacity to continue to support our growth strategy as we remain focused on creating value for employees, customers and shareholders.

Now we will open the call to questions from our analysts. Operator, could you please provide instructions.

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Question and Answer

Operator

[Operator Instructions] We will take our first question from Cherilyn Radbourne with TD Cowen.

Cherilyn Radbourne
TD Securities Equity Research

Andrew, as you noted in your prepared remarks, consumer adoption of EV seem to have plateaued a bit. Could you give us a bit of color on what you're hearing from customers and what you think the implications might be for funnel conversion rates?

Andrew P. Hider
Look, the overall market, it's a bit dynamic right now. And we're monitoring very closely with OEMs around their battery technology evolution, their near-term investment plans. And really, at this point, we're not seeing major changes to our EV funnel. Transportation funnel remains strong and reflects diversified longterm opportunities. And really, our view of the opportunity has not changed. If you step back and look at our organization, we have a long tail here and view this as additional investments in production capacity and these are needed to meet the stated EV production targets.

Now the timing certainly is going to be the discussion point. We haven't seen a marked change in timing discussion as of today. That said, we're staying very close. And even if we look at the quarter, we booked several customers within the quarter. We continue to evolve and continue to really focus on high value as these customers navigate this is certainly dynamic and challenging environment.

Cherilyn Radbourne
TD Securities Equity Research

Now I think bookings included a grid battery program order, which I believe is the first for ATS. So maybe you could elaborate on that a little bit.

Andrew P. Hider
So we are excited about this space. And it's an area that we view as we step back and look at our capabilities is very in line with how we have launched solutions into markets to support the demand and growth. And just to step back on this one, it's very closely aligned to how we operate for the EV space. We use a lot of the same capability in technology, and we brought it to this market as we see this as a growing area. And as you look at the energy consumption, energy space and they're needed to really identify areas to store and then produce output, we certainly view this as a strong potential. That said, it's early in its journey and one that we're working with a key leader as they really look to prove out their technology and prove out their capability.

Operator

We will take our next question from Sabahat Khan with RBC Capital Markets.

Sabahat Khan
RBC Capital Markets, Research Division

I guess just kind of on a similar line of question, Cherilyn, if you could just maybe point in a little bit on the life sciences market. We've been getting a lot of questions over the recent weeks on that market as people see some of the headlines. Maybe to the extent you can share, maybe talk about the specific areas you're involved with, within life sciences, which ones do you see growth in, which ones might see some slowdown? And just a little bit of color on that

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larger end market. I noticed some commentary in your release about injectables related to obesity and diabetes. Maybe you can talk about how you're involved in that space as well.

Andrew P. Hider
I'm going to give some headlines, and then I'll go into more specific headline. As I walked through, our funnel is strong in the life sciences space. Number two, if you look at the bookings, we're up year-to-date, plus 16%, and a lot of that is aligned around areas that we view have long tails. And as a reminder, when I first joined, we really looked at the space, we identified targeted areas that we view are more resilient, and we continue to align around those areas. And one of them is this auto-injector space, which the end market is growing mid-20s in the external growth rate, and that's around weight loss, that's around diabetes care, that's around -- even they're testing it now for cardiovascular solutions. And so we do view that market as a strong growth. And not every time it's a one-for-one on CapEx to growth, but we are seeing a significant growth in the support of the auto-injector space. And our bookings for the quarter were -- a big piece of that was around auto-injector.

Number two, -- and I highlighted this a bit in my prepared remarks, Comecer and our support in the fight against cancer. And the new launches of drugs around really identifying and being a higher level in that fight against cancer and where they fit in the space. And as a reminder, they do the filling application for this. It's aligned around IP. It's a later on our technology, and we are really, truly driving and enabling our customers to bring those products to market. And so as we see new launches in life sciences, as we see new areas, ATS is positioned to really support customers in bringing that product to market and at a rate that we can meet the increased demand, we can have high quality and really reduce the risk to bring those products to life. And so overall, I'm pleased with the progress, more to come. And as a reminder, our funnel remains strong for this market.

Sabahat Khan
RBC Capital Markets, Research Division

And then just maybe a bit more of a specific one on the EV market. You got a sort of a large enterprise order, some smaller ones in there. And I think on the last call, you alluded to doing tests with one or more OEMs that could lead to potentially bigger orders. Can you maybe walk us through what that process entails? The size of that test order, how long the customer wants to kind of run with those products that you've provided them whether the assembly systems? And at what point would they make a decision on whether to convert? Just thinking if you can walk us through sort of a process time line? Are we looking at a 6 month, 2 years? Maybe some additional color on that, how that works on your end.

Andrew P. Hider
Unfortunately, there is no standard playbook for this one. And what you'll often find is customers will launch with a pilot production line. And what they're often doing with that is they're testing out their solution set. Some customers will go quickly from pilot, while it's even in process to production. Some will test the pilot and then want to narrow in on the technology and then launch the production. We've actually seen customers even in the short time in the last, call it, 24 months, we've seen customers also change based on battery technologies. And so they have launched, and then they modified and really realigned to a new battery technology that offered higher output, lower cost. And so there is really no standard. And so what I can tell you is this, our target, our focus is to be on customers that we do have long tails. Customers that we view we can offer high value in their pivot to the EV space. And customers that we view that theyâ€™re going to light around production in production quantity output. And so while we're pleased with the progress here, we do see this as, call it, early in its journey. And it's one that our view is of the market has not changed, yet the long-term perspective is really around launching new vehicles and really supporting these customers as they navigate this certainly changing environment.

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Ryan McLeod
Sam, just to add on a little bit here, too. So the order you referenced to give you a bit of context, it's mid-single digit millions. As Andrew said, not atypical for this stage of where that customer is at. The other thing I would add on, just about EV in general, as a reminder, these programs typically are 18 to 24 months in duration. So they are longer duration programs, and that does also influence the timing of customers pursuing follow-on orders or expansion of orders. So it is a little bit longer. The amount of time order sit in our funnel is a little bit longer than other parts of the business.

Operator

And we will take our next question from Michael Doumet with Scotiabank.

Michael Doumet
Scotiabank Global Banking and Markets, Research Division

I want to see if I can push a little bit more on the auto-injectors piece, again, as far as it relates to diabetes and the obesity treatments. Just wondering if you can give us a sense for what has been booked to date versus what you still would qualify as being in the funnel? Trying to get a sense for where the bookings could accelerate a little bit more rapidly in the coming quarters? Just any perspective there.

Ryan McLeod
So I mean, within the quarter, it was in the 10% to 15% range of our bookings. And I'll let Andrew comment on the funnel.

Andrew P. Hider
So we have shipped solutions here. We're in process on solutions, and our funnel remains strong around this space. And one of the areas -- and I'll just walk through and highlighted technology, and I did mention this, but just to really highlight it and a little bit more clarity, the Symphoni platform has really put us in a unique space here. And as a reminder, we acquired the company Transformix some time ago. We worked in our innovation center right here in Cambridge, Ontario to bring this solution from where it was to being capable in this space. And it allows us to have a smaller footprint. It allowed us to bring a solution set with high output, high-quality small footprint, which is critical for this element. And so we've been able to really align around this and it makes more of a standard solution set for the market. So again, we're pleased with the progress. The funnel is strong in this area. We see it continuing to grow, and it's one of many areas that we provide solution sets for our customers. And I highlight that because there are several other life sciences applications and markets that we also support that also have strong growth, and it's our mission to help our customers bring their product to market.

Michael Doumet
Scotiabank Global Banking and Markets, Research Division

So maybe just pivoting here to higher interest rates. Just wondering how higher interest rates have filtered into some of the discussions you're having with your customers, presumably or it could presumably defer some spin it. I'm just wondering if you can provide comments as to maybe where you felt conversations changed the most end market-wise or if you haven't at all.

Andrew P. Hider
First and foremost, the bookings rate year-to-date is strong. We're happy with the quarter. I think this is our third largest bookings quarter in history. And so overall, pleased with the progress. And as I walked through the markets, I referenced strong in most areas. I would say the one area that we watch closely is our consumer products, but more specifically to personal care, and that generally can be impacted by a recession. That is a low single digit. And just to highlight our consumer products year-to-date is up 20%. So while I highlighted that as an area we look at, we've not seen that dip in walk through into an impact. And so when I speak to customers, and as you're well aware, as the CEO, one of my ongoing

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standard works is to have conversations with many of our customers and many of our spaces, we're not seeing a marked difference in their buying behavior. We often align around key technologies or key solutions like the auto-injector that really align to their strategic output of their products. And so they're focused on getting these to market. They're focused on bringing the capability to their customer base, and ATS is well positioned to provide that.

Operator

We will take our next question from Michael Glen with Raymond James.

Michael W. Glen
Raymond James Ltd., Research Division

Just to go back on the auto-injector, Andrew, can you just frame for us the competitive environment around this business? And how do you assess your current market share? Do you view ATS as the market leader in this space? Or just trying to get some insights on that.

Andrew P. Hider
So start the latter part of the question. So we are a market leader in this space. And we've been in this market for some time, and we've provided solution sets for a period of time with known customers that have been around. We have continued to grow, and we've continued to take share here. And I referenced Symphoni earlier because that was a key enabler for us. And it really allowed us to bring a standard solution set with customization customer. And I'll tell you whether you come into North America or Europe, we are providing solutions for this space. And it is a competitive area. That said, we are a leader in this space, and we have key technology that our customers value.

Michael W. Glen
Raymond James Ltd., Research Division

And then just on the EV backlog, would you say that, that is becoming more diversified over time? Is it still as heavily concentrated with one customer? Or is there a small evolution there taking towards diversification.

Andrew P. Hider
There? Yes. So I would say it's still heavily concentrated yet there is diversification is increasing. And again, even this quarter, we saw several customers in new and follow-on work. And so that's going to continue to support the diversification in this space.

Michael W. Glen
Raymond James Ltd., Research Division

And Ryan, just a clarification. I think you said auto-injector was 10% to 15% range of bookings in the quarter was that for life sciences? Or was that for the entire bookings figure?

Ryan McLeod
That was for the entire bookings. 10 to 15 of our entire bookings.

Operator

[Operator Instructions] And we will take our next question from Justin Keywood with Stifel Canada.

Justin Keywood
Stifel Nicolaus Canada Inc., Research Division

On M&A, any change in the multiple environment? And is there perhaps an opportunity here to do additional transactions? Or is the focus more internally and closing and integrating Avidity.

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Andrew P. Hider

So I'll walk through different such. First and foremost, we're very excited to welcome Ability to the family. We do view the closing as this quarter, and we're excited to have that as part of our future. Number two, as you look at the deal flow in the M&A space, deal flow has gone down. That said, our funnel is healthy, and we continue to cultivate in key areas. And this has been a proven focus for ATS. We have our playbook. We have our ability to execute when we identify key high value for ATS, our customers and our shareholders. And our funnel remains healthy in the state. We have not seen a significant change in seller expectations. And we are extremely, as you're well aware, very disciplined in our approach on the key focus areas for M&A potential and part of that is the financial return.

So you're going to see us continue to execute our plan. And when the right opportunities arise, we're in a position to move fast and really help the new additions achieve their aspirations. And to add a little color on that, Comecer growing at a very fast pace. We've had them now as part of almost 5 years. I highlighted CFT and the announcement on what they've done with their margin expansion. And just pleased with the progress here and more to come for the future.

Justin Keywood
Stifel Nicolaus Canada Inc., Research Division

And just to clarify on that CFT margin expansion, I think on the Investor Day, it was mentioned it was 500 bps since it was acquired.

Andrew P. Hider

That's correct.

Justin Keywood
Stifel Nicolaus Canada Inc., Research Division

And then a question for Ryan on the working capital. So it has been a little elevated, and I believe, above the target range this quarter. Just wondering if we expected that to revert in fiscal Q3? And what is the expectations for the back half of the year?

Ryan McLeod

Our goal is to be below 15%. We've exceeded that in the first half of the fiscal year. And I've talked about some of the drivers of that variability, primarily some of the investment into the larger programs that are driving that increase. In the short term, I expect we'll continue to see a higher than target run rate. I do expect we'll see a decrease in the first half of calendar '24. So our fourth fiscal quarter and the first fiscal quarter of next year. And that's really tied to our current program schedules, the portfolio of what's in our backlog and how that's going to get executed and then build. Outside of the program, we've had a little bit of a build in inventory, but the main driver is really tied to specific customer programs.

Justin Keywood
Stifel Nicolaus Canada Inc., Research Division

And then just finally, on the net debt-to-EBITDA. So 2x in the quarter. And post Avidity, I believe that's 2.5x. Is that correct?

Ryan McLeod

That is correct, yes.

Operator

And we will take our next question from Maxim Sytchev, with National Bank Financial.

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Maxim Sytchev
National Bank Financial, Inc., Research Division

Andrew, I mean, most questions have been answered, or asked, I guess, I just wanted to see if maybe you can provide a bit of framework in terms of how we should be thinking about the payback on some of the reorganization activities that you're undertaking in the upcoming quarter?

Ryan McLeod
So start, I mean -- and I referenced in my prepared remarks that we do periodically look for and identify areas to improve value. And what we're doing, it's actions that are going to impact a number of areas of the organization, and it's really about reallocating capital into higher value areas of the business, for example, digital services, life sciences, and removing in a number of other areas where we don't see the same growth or value potential. So we spoke about this in us, including at our Investor Day, we talked about optimizing our portfolio, ensure we're spending in the right areas to drive value for customers or shareholders. So we do expect this will drive growth and improvement in our margins over time. But this is not targeted as a cost savings initiative.

Maxim Sytchev
National Bank Financial, Inc., Research Division

And if there's nothing from Andrew. Another follow-up question I had was in relation to the leverage dynamic pro forma 2.5x. I'm just curious if your framework or the thought process around sort of the optimal capital structure within the high interest rate environment has changed at all. Just maybe any kind of high-level thoughts on that side.

Ryan McLeod
Yes. So generally, no. Our thinking hasn't changed around capital deployment and where we're focused. And we do favor internal investment. We look at it from an ROIC perspective and that typically generates the highest returns. M&A is also a priority for us. And then our share buyback is more opportunistic. The cost of capital, the cost of debt, it affects the individual investment decisions. So when we're looking at M&A, there's an impact on, for example, a DCF in the valuation. But it doesn't change the overall framework with how we're looking at the business and how we're looking at deploying capital to drive value.

Maxim Sytchev
National Bank Financial, Inc., Research Division

And maybe just if I can sneak one other one. In terms of nuclear, I mean, there is obviously better useful around some of the opportunities there. I'm just curious if you can maybe comment on the space in terms of the pacing of potential contract announcements on that side.

Andrew P. Hider
So Max, we see nuclear -- as we look at the energy space, nuclear is growing and continues to grow quite strong. And as a reminder, we're in the can-do reactor space and more specifically, the refurbishment of CANDU reactors, which we've seen continued global interest around this. Additionally, we support and we're part of the small module reactors. And in all, it's early, and I emphasize early in his journey, we're seeing strong science and potential acceleration here. So I'm always careful until the technology has proven out. We are working with some of the key players in that space, and we support this area. Again, we're a nest provider for automation equipment around the energy and nuclear arena and one that we view we have high value for customers as they move forward.

Operator

We will take follow-up questions from Michael Glen with Raymond James.

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Michael W. Glen
Raymond James Ltd., Research Division

I just want to ask one follow-up on the 10% to 15% figure. Can you characterize how that would have tracked in the past this quarter versus prior quarters? Have you seen quarters with this much strength in the past? Or is the direction generally up into the right with this business, trying to assess lumpiness as well.

Ryan McLeod
Michael, you're asking specifically on auto-injector order flow?

Michael W. Glen
Raymond James Ltd., Research Division

Yes.

Ryan McLeod
This was a higher quarter than where we've been on a run rate basis.

Michael W. Glen
Raymond James Ltd., Research Division

And would you expect order flow to be relatively consistent? Or there will be lumpiness quarter-to-quarter as this build out?

Andrew P. Hider
Yes. So Michael, there will be lumpiness. That said, one of us how to hear. And we continue to support customers as their growth and building capability to meet the on-demand. And as we identified new areas that can be utilized for the auto-injector space, the demand is only going up. And so we are supporting that, and it will be a continued focus on timing for customers, but it is a healthy funnel.

Michael W. Glen
Raymond James Ltd., Research Division

And are you doing full finish at all with any of these applications as well?

Andrew P. Hider
We are early days in that and we are continuing to assess as you're well aware, we do fill finish in our business, and we do look across synergy to bring a full value to customers. Early on, right now, we're part of the medical device portion of that, but it is an area that we're looking into and continue to look into.

Operator

And we have no other questions.

So I will now turn the call back to Mr. Hider for few remarks.

Andrew P. Hider
Thank you, operator. Look forward to welcoming Avidity to the ATS Group of companies, put in closing, of course, and to speaking with you on our Q3 call in February. Thank you for joining us today. Stay safe, and goodbye for now.

Operator
Ladies and gentlemen, this concludes today's call, and we thank you for your participation. You may now disconnect.

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