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Presentation

Operator

Hello, everyone, and welcome to the ATS Corporation First Quarter Conference Call and Webcast. This call is being recorded on August 8, 2024 at 8:30 a.m. Eastern time. Following the presentation, we will conduct a question and answer session. I will now turn the call over to David Galison, Head of Investor Relations at ATS. Please go ahead.

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 caution that the statements made on our webcast and conference call may contain forward-looking 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, ATS reported first quarter results for fiscal '25, including our second highest bookings quarter in company history, led by both organic and acquisition [indiscernible] within life sciences. The quarter's results once again reflect the strength of our ABM and disciplined execution of our strategy for value creation. To further advance our capabilities, we welcomed Paxiom to the ATS portfolio in July, creating further opportunities in multiple end market verticals. This morning, I will update you on our business and markets and Ryan will provide his financial report.

Starting with our financial value drivers. Order bookings for the quarter were $817 million, up 18% year-over-year, supported by organic growth in life sciences, along with consumer products. Q1 revenues were $694 million, down 8% from Q1 last year as transportation revenues were lower as expected where we are in the early phases of executing on recent program wins in life sciences. By revenue stream, we drove solid growth in year-over-year service and product sales. Adjusted earnings from operations in Q1 were $86 million. Moving to our outlook.

Our backlog ended at $1.9 billion, with trailing 12-month book-to-bill ratio at or above 1 in all market verticals for the third consecutive quarter, with the exception of transportation. By market, life sciences backlog of $990 million is the highest in ATS history, an increase of 26% compared to Q1 last year. This quarter included a number of large orders across our strategic submarkets, including wearable devices and GLP-1 auto-injectors along with orders for radioisotope production lines. Our life sciences opportunity funnel is strong in all key submarkets.

Our integrated life sciences solutions are creating new opportunities for our teams to harness our comprehensive suite of capabilities across customer value chains. In food and beverage, ending backlog for the first quarter was $216 million, an increase of 15% compared to prior year. And our funnel remains strong. With the Paxiom acquisition, we look forward to leveraging customer synergies to expand our market position and support diversification of our offerings and customer base. Paxiom's differentiated solutions in filling, wrapping, ceiling, labeling and pelletizing across a range of industries will be a strong complement to our existing ATS portfolio, allowing us to offer complete packaging and end-of-line

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solutions. In energy, our funnel is strong, with refurbishment of existing nuclear reactors remaining a key driver.

Our expertise with CANDU reactors positions us well as projects worldwide progress towards execution. We have opportunities to serve customers in the SMR market. Where we are supporting ongoing concept development work with the long-term goal of positioning ourselves for opportunities as the technology moves to construction phases. In both the SMR and large-scale new build markets, demand is benefiting from the need to achieve emissions targets globally. In addition, automation of fuel fabrication to support longer-term growth in the market is an emerging area of focus were ATS' previous experience.

We are focused on expanding our international customer base while supporting our long-standing customers. In addition, we also have specialized skills in energy storage and continue to work with customers on select opportunities. In transportation, backlog was $417 million, as we continued to progress on large programs won in fiscal '23. Our sales funnel in transportation consists of smaller opportunities relative to the size of the order bookings we've seen over the past 24 months. As industry participants reduce investments to match end market demand and lower platform costs as our existing EV projects have been moved towards completion and customers have adjusted their end market demand expectations, we have been redeploying resources internally.

Given the current market conditions, today, we announced plans to realign our EV businesses and adjust our cost structure to reflect our expectations for EV to be a smaller portion of our overall business going forward. Ryan will provide further information in his prepared remarks. In consumer products, our funnel remains stable, including ongoing opportunities in areas such as warehouse automation and consumer packaging. This continues to be a niche market that makes use of our specialized capabilities and complements revenue in our larger verticals.

On after sales services, our regional networks remain a key element of our approach to growth across all vertical markets and create their proximity and response times that our customers need. Our teams remain focused on expanding our capabilities to drive momentum on higher-value services. including digitally enabled insights. During the quarter, we launched our service experience center in Cambridge, which will enable real-time asset monitoring and support over any assets full life cycle. Our Illuminate platform continues to be an important part for our ability to provide automation equipment monitoring and insights, both on-site and remotely.

On our digital offerings, our funnel is strong. Demand is positive for solutions, which improve productivity or energy management and process automation applications. Our proven track record is a competitive advantage for us. We continue to build our suite of offerings, including additional capabilities being layered on to our PA Facts platform, which is our cloud-based IoT OT platform that houses scalable technology, IoT offerings to support our customers' production control systems. As an example, during the quarter, we launched additions for AI-based heat exchanger and compressor monitoring systems to ring the [anomaly] product. With this addition, we further expand [anomaly] as a leading comprehensive software product for AI-based predictive maintenance. We remain focused on developing our capabilities to allow us to support customers in the collection and analysis of data to meaningfully drive performance.

On the ATS business model, we hosted our annual ATS Leadership Conference, where ABM culture and successors were on display. Several teams were honored with ABM Awards for overall value driver performance, innovation, recurring revenue, health and safety and employee engagement. Throughout the quarter, our global team is engaged in formal continuous improvement efforts, including problem-solving events, Kaizens and workshops focused on all of our value drivers. Our ABM culture continues to advance with evolving tools to improve day-to-day activities in addition to enterprise-wide events and a strong focus on sustaining impact. The value that our ABM drives for our employees, customers and shareholders remains clear.

On M&A, our funnel is active and our portfolio remains diversified across a range of target sizes and markets. We maintain our disciplined approach as we assess targets while being actively engaged in cultivating opportunities that align with our strategic initiatives. Integration activities are now underway at Paxiom, guided by our ABM playbook. Meanwhile, integration of previous acquisitions, including Avidity, are progressing well. Both Paxiom and Avidity, along with other recent acquisitions are important

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contributors to expanding our recurring revenues. We are pleased to announce yesterday that we've signed an agreement to acquire the majority of the assets of Heidolph Instruments, which is a leading manufacturer of lab equipment, subject to clearing and closing condition.

On innovation, capital investment into solutions that drive returns remains a point of emphasis in our strategy. A few highlights from the quarter. Our Symphoni platform continues to be a differentiator for high-speed automation assembly. And during the quarter, we launched Symphoni cell conductor, a software add-on that enables regulatory compliance for the life sciences market. Using our PA Facts platform and building on our previous launches of [my BK] and Marco Insights, we've also launched [my] CFT, a customer portal for tomato processing applications within our food and beverage market. At IWK, our teams developed and successfully launched CABLIblue, a carton to carton blistering offering that allows customers to meet their sustainable packaging requirements.

This offering was originally developed during a President's Kaizen. The team added direct voice of customer feedback and have had positive lead generation since launch. The successful market deployment of this product is a good example of our focus on customer sustainability requirements, which continue to evolve.

In summary, our first quarter bookings were strong, and our backlog provides good revenue visibility. With the actions we've announced today, we remain confident in our strategic direction and focus on regulated end markets. Our dedicated team is demonstrating exceptional commitment to innovation and customer satisfaction that is necessary for long-term value creation. As we progress through fiscal 2025, we will continue to focus on delivering on our shared purpose, creating solutions that positively impact lives around the world.

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

Ryan McLeod
Chief Financial Officer

Thank you, Andrew, and good morning, everyone. Starting with our operating results for the quarter. We drove strong order bookings of $817 million, up 18.4% compared to Q1 last year. Life sciences led this increase with a combination of organic order bookings growth in addition to contributions from acquisitions, including Avidity. Our trailing 12-month book-to-bill ratio at the end of Q1 was 1.02:1. Excluding transportation, our trailing 12-month book-to-bill ratio was 1.18:1.

Q1 revenues were $694 million, down 7.9% compared to the prior year. Organic growth in life sciences and consumer products, along with a 4% benefit from recently acquired companies was offset by declines in transportation and food. As expected, EV has moved past peak revenue contributions from our previous large order bookings in this space. Food and beverage revenues declined, driven by a prior year benefit from stronger activity related to the higher energy cost environment, particularly in Europe. Moving to earnings.

Q1 adjusted earnings from operations were $86.2 million, down 16% from Q1 last year, primarily due to lower revenues. Q1 gross margin, excluding acquisition-related inventory fair value charges, was 29.9%, an increase of 168 basis points from the prior year. We continue to prioritize margin expansion utilizing ABM tools. In terms of supply chain dynamics, the improving trend on lead times for critical components has continued. These improvements could take several quarters to be reflected in our results. We are still experiencing cost increases on some material costs, and our team continues to drive proven supply chain strategies and ABM activities to support the business. Moving to SG&A.

Excluding acquisition-related amortization and transaction costs, first quarter SG&A was $116.4 million, an $11.4 million increase when compared to the prior year. Primarily due to incremental acquisition-related SG&A costs, mostly from Avidity. Excluding the mark-to-market impact related to changes in our share price, stock-based compensation expense was $5 million in Q1, consistent with the prior year. Earnings per share was $0.36 in Q1 and $0.50 on an adjusted basis. Moving to our outlook.

We finished the quarter with just under $1.9 billion of order backlog. Looking ahead, our revenue conversion for Q2 is estimated to be in the 33% to 36% range of order backlog. As a reminder, this

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assessment is updated every quarter based on revenue expectations from existing backlog and new orders booked and build within the quarter. The lower conversion percentage reflects the relatively early phases of some larger life science programs as well as approximately $150 million of delayed transportation order backlog, which remains excluded from our outlook for the year.

Due to lower expected revenues in Q2, particularly in our transportation business, we expect our margins to be negatively impacted. We are taking actions to mitigate the impact, including reallocating resources into other areas of the business in addition to reducing our workforce, which we expect will cost between $15 million and $20 million over the next several quarters. These actions are expected to rightsize the cost structure of our transportation business for current market activity allow us to continue to serve our customers effectively and support ongoing growth in our other market verticals. Moving to the balance sheet.

In Q1, cash flows used in operating activities were $35.4 million. Cash usage largely reflected the timing of progress billings and collection of those billings on our larger projects. Our noncash working capital as a percentage of revenue was 23.4%, up from 19% at the end of fiscal '24. Looking ahead, we anticipate that working capital improvements will start to materialize in the back half of the year as milestones are achieved on larger programs in our backlog. During the quarter, we invested $15.9 million in CapEx and intangible assets.

On leverage, our net debt to adjusted EBITDA ratio was 2.7:1 as of the end of Q1. Our current leverage position is consistent with our objective of maintaining our net debt to adjusted EBITDA within the 2 to 3x range. As we noted when we reported our year-end results, we're active on our share buyback program during Q1. The NCIB program remains an opportunistic component of our overall capital deployment strategy.

In summary, ATS delivered solid results for the quarter. We are particularly pleased with the continued strength of our order bookings, which highlights the value and importance of our offerings to our diverse customer base and our attractive long-term growth opportunities. Our order backlog remains strong and provides us with good revenue visibility for the fiscal year with particular strength in life sciences. The recent addition of Paxiom will further our opportunities in food technologies and packaging, and we look forward to closing the Heidolph acquisition in the coming weeks. Our focus remains on our core values of people, process and performance and utilizing the ABM to drive disciplined purposeful continuous improvement. We're confident in the ability of our team to drive our strategy forward and create long-term value for our customers and shareholders.
Now we will open the call to questions from our analysts. Operator, could you please provide instructions. Thank you.

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Question and Answer

Operator

[Operator Instructions] Our first question comes from Michael Glen from Raymond James.

Michael W. Glen
Raymond James Ltd., Research Division

I just really wanted to start with the working capital situation. Like I'm having a bit of a tough time understanding if the customer isn't, doesn't appear to be willing to pay for the work being done? Like why are you still progressing and building working capital on these projects? Like the number just seems to be getting really, really large at this point.

Ryan McLeod
Chief Financial Officer

Michael. So a couple of things. The increase in working capital in the quarter was in a couple of different areas of the business. It was both life sciences and in EV primarily. As I mentioned in my prepared remarks, programs are progressing. And as these programs get completed or advanced depending on where we are in the build, we are invoicing them, and we expect to collect on them. There's -- I've talked about this being largely a timing issue, and that's what it is at this point.

Michael W. Glen
Raymond James Ltd., Research Division

Okay. Is there risk though of any obsolescence with what you're building. I mean the value of this equipment, I think, is changing in the marketplace as we speak, given the evolving EV outlook. Should we think about potential for charges against any of this working capital that's being built up?

Ryan McLeod
Chief Financial Officer

No, that's not our expectation. I mean, contractually, we're building to what's been expected or what we've contracted to. And as I said, our expectation is the programs will get completed. And again, the build, it's not solely related to EV in the quarter. It's in life sciences as well.

Operator

Our next question comes from Cherilyn Radbourne from TD Cowen.

Patrick Sullivan
TD Cowen, Research Division

This is Pat Sullivan on behalf of Cherilyn. I know you touched on it a little bit in your prepared remarks, but could you elaborate on the opportunity that you see ahead in energy, including larger nuclear reactors, SMRs and grid battery storage?

Andrew P. Hider
CEO & Director

Yes. Absolutely, Pat. There's call it, three and then you added a fourth in there from a standpoint of energy storage. But large part, the biggest portion of our energy and nuclear area is CANDU reactor refurbishment and being green energy and the need for continued energy support, we see this as an area of continued strength. It's a niche area for our organization. We do the automation for the refurbishment process. That said, we continue to expand capability and our ability to serve and support for not only the can do refurbishment process but also support the tooling over the life of the tooling. So we see continued strength in this area.

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The second portion, I would say, is the small module reactors. And as I talk through, we continue to see opportunity in this area. We're working with some of the major players in this space. And we do see this as an area of growth for the future. All that said, it needs to be proved out, and we need to make sure that we support our customers as they're really looking to bring these online and prove the capability on small module actors.

As a reminder, we're a small portion of the overall spend, but high impact, exactly kind of where we want to be from a value perspective with these customers. And then there's decommission. And we continue to support decommissioning where needed. Obviously, this is an area that our customers look to ATS to support on efficiency of decommissioning. And when they can automate and drive cost and efficiency, it only supports their value creation in the space. Then there's battery storage and energy storage, and that continues to be an area of opportunity for the business and one that we view we have a strong value for our customers around.

Patrick Sullivan
TD Cowen, Research Division

Okay. And if I could ask another one. I think since you guys last reported, we've seen more and more announcements from companies investing billions of dollars into their GLP-1 supply chains. I guess are these investments announcements in alignment with your internal expectations for the segment? Are they exceeding it or subsiding those levels you expected maybe 3 or 6 months ago?

Andrew P. Hider
CEO & Director

Yes. So look, I would say it's in line. We continue to be a strong supporter for this space. Many customers around their launch and/or future launch of drugs within this market around the auto injector area. As a reminder, we've been in this market for gosh, 2 decades with the EpiPen and other variations of the product over time. With our launch of the Symphoni platform, it's really enabled us to support customers on production needs. And to give you context on a base system, Symphoni allows us to go up to 2x to the output and half the footprint, a real key enabler and another check and proof point around utilizing innovation, IP and technology to drive higher value for our customers. And so overall, we view this as a market that we will continue to support the foreseeable future. It's in line with our customers' investment on their growth. And as they identify new drugs and new ability to fight other areas with this product, it's an area that ATS will continue to support.

Operator

Our next question comes from Joe Ritchie from Goldman Sachs.

Joseph Alfred Ritchie
Goldman Sachs Group, Inc., Research Division

So maybe just kind of focus on the near term for a second and the guidance for next quarter. So you've given a range, call it, roughly around [$620 million] to let's say, roughly [$680 million] in revenues for the upcoming quarter. I'm just curious, two things. Number one, what's dependent on like the low versus the high end of the range, like in confidence and hitting either end? And then secondly, as you think about the margin profile of the business that's coming through, I know that some of your -- I think some of your design work on the life sciences side tends to be a little bit lower margin. So help us understand what the margin trajectory of that backlog is as well that converts.

Ryan McLeod
Chief Financial Officer

Yes. So Joe, I guess, just first on the backlog conversion, then I'll touch on margins. So the range we provided, it's based on what's in backlog and then as well as our expectations for shorter-term business in quarter bookings and how that converts to revenue. So there's some impact from the shorter term shorter cycle equipment, but it's more dependent on progress on the projects. And so where we have materials

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coming in, that can get us towards a higher range if materials push out a few weeks, that could put us towards a lower range. So that's the kind of sensitivity around it.

In terms of margin, I mean programs and the rest of the business is largely operating as expected, and we're quite pleased with our margin performance in this current quarter. But given the sequential decline in revenues, we are going to see pressure on gross margin as well as our operating leverage. It's primarily a utilization issue. So we do have cost containment measures in place in addition to the restructuring actions that we've talked about. But those won't fully offset the revenue headwinds in the second quarter.

Joseph Alfred Ritchie
Goldman Sachs Group, Inc., Research Division

Okay. That's helpful, Ryan. And then maybe just you referenced the restructuring actions, the $15 million to $20 million in cost actions. How should we think about the payback from those actions. And then also, you guys have referenced, rightsizing your transportation backlog, historically, if I go back into the history, I've seen that backlog in that kind of $200 million to $250 million range, is that what the expectation should be for what rightsizing actually means going forward?

Ryan McLeod
Chief Financial Officer

Well, so let me answer the first part of the question first. So I mean, what we're doing is, as we talked about aligning our cost structure to the level of market activity we expect. So part of that is reallocating resources and that's both people and footprint to other parts of the business, primarily in life sciences, but other parts as well. There is a head count impact and again, that's going to remove cost from the business. And it's -- I mean from our run rate savings, it's in excess of the dollars we're spending.

From a backlog perspective, I mean, at this point, I'd say we expect this to be a lower percentage of our business. I don't think of it in terms of dollars, but just the way the market is going versus growth in our other verticals, it's going to be in that low double digit, maybe high single-digit percentage of revenues going forward.

Operator

Our next question comes from Justin Keywood from Stifel.

Justin Keywood
Stifel Nicolaus Canada Inc., Research Division

On the record life sciences backlog, are you able to quantify what comprises of GLP-1 orders? And also the outlook for life sciences, if we were look -- to look at the segment beyond GLP-1, are you still seeing strength in growth.

Andrew P. Hider
CEO & Director

So why don't I take the second part first and then Ryan can walk through the portion of backlog. Justin, when we step back and look at this space, there are -- and I referenced this in my prepared remarks, there are several areas that we continue to see strength around. And of course, we've referenced GLP-1. We're able to utilize our capability, our technology, our footprint to really drive impact here. But in addition to that, there are several areas. And I go through radiopharmaceutical and the launch of new drugs in the fight against cancer. We have a strong position in the ability to support that market. And it continues to be an area of strength for Comecer business.

We also see continued strength in wearable devices and specifically around not only wearable but in the treatment of diabetes in the areas around how we can support the products and launches within that space. We're also in pharmacy automation, which also is continuing to show strength and opportunity for the future. But I also remind you, when we look at ATS and even our order volume, we have businesses that are continuing to support things like contact lenses and areas that customers look to invest because it's their core product and core [niches] that they want to support over the long term and to support and

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drive not only new technology, new innovation in those products, we have the ability to serve and support over the life of the equipment.

So our view of the market, very strong bookings quarter as very strong backlog today. Our funnel remains healthy with the addition of -- or excuse me, future addition of the new acquisition we announced with Heidolph, we can't be more excited about that potential and what we can do with that business. As we help them really penetrate and drive more into the lab space. But Ryan, do you want to touch on the backlog portion?

Ryan McLeod
Chief Financial Officer

Yes. Justin, it's roughly 20% of our life sciences backlog or 10% of our overall backlog, and that's consistent with where we had expected it to be. What we've talked in the past about those solutions being roughly high single digit, low double-digit percentage of our revenues, and that's how it aligned with our backlog.

Justin Keywood
Stifel Nicolaus Canada Inc., Research Division

Appreciate it. And then on M&A, you mentioned the Heidolph tuck-in acquisition. If there is any metrics that you could point to, the press release did mention that it's accretive on a multiple basis. And then also within the pipeline, is it largely tuck-in opportunities? Or are there some more sizable transactions potentially?

Ryan McLeod
Chief Financial Officer

Yes. So it's accretive on a gross margin basis. And to give maybe a little bit more context, this is an asset an asset deal. And so the company had been -- had reached some covenants and been pushed into an insolvency process by its lenders. And so from a value perspective, made it very attractive. And this is a business that we've in track for quite a period of time, which allowed us to move very quickly. And then I'll let Andrew address the second part.

Andrew P. Hider
CEO & Director

Yes. So just to add on, we've known this space, this market for over 2 years and continue to monitor. So very pleased. And of course, we have to close and add Heidolph to the business, but excited about the opportunity and where they're positioned within the organization. As far as our funnel continues to be strong. And when we look, there is a good mix of small, medium and large within our funnel. And as a reminder, we are constantly cultivating and constantly looking at areas that we know by building those relationships, building that ability to understand detail the [stash] within the markets when opportunities arise, we can move very quick and Heidolph is just one example of that, that when this became available, we knew the space, we knew the area. We had done the diligence around understanding their capability, customer sentiment and technology that we could move very quick and have a future potential with this business.

Operator

Question comes from Maxim Sytchev National Bank Financial.

Maxim Sytchev
National Bank Financial, Inc., Research Division

Andrew, maybe just delving a little bit on sort of the discussion on maybe the interplay between M&A and NCIB and how you guys are thinking about this internally?

Ryan McLeod
Chief Financial Officer

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So Max, maybe I'll start on that. I mean, first, on the NCIB, it really is it's -- we've always viewed this as opportunistic there's not a set allocation in our budget. We were regularly reviewing with the board. And we balance that with other opportunities that we want to be well positioned for our capital deployment framework really favors internal investment first, and it's all based on return on invested capital and then M&A second.

Maxim Sytchev
National Bank Financial, Inc., Research Division

Okay. And then the second question I had, just in terms of rightsizing of the business, do you mind maybe contextualizing this once we sort of through that how the exit margin compares to what you guys telegraphed at Investor Day in terms of progressing to those levels?

Ryan McLeod
Chief Financial Officer

Yes. I mean, I think this puts us back into a place I mean we won't -- I don't think coming out of this will be at the 15%. There's still work we have to do, and that was not -- as a reminder, that was not a short-term margin target. That was one that we see evolving to over a number of years. But I think this is really we're in a position that we need to protect the margins and given the decline that we're seeing in the transportation market, aligning our cost structure to that reality. So from a margin perspective, I'd say it puts us back into a place that we were prior to the decline in transportation.

Maxim Sytchev
National Bank Financial, Inc., Research Division

And I guess is there any difference sort of structural that needs to be done internally vis-a-vis the restructuring you've done in the transport space in Europe a number of years ago? Like is this more complex? Or is it not really necessarily the case.

Andrew P. Hider
CEO & Director

I would say it's not more complex. And as a reminder, we were able to move several of the associates to support our growth areas like life sciences. And then this was the additional action that's taken to align the business to what we view as the future or foreseeable future in the short and midterm.

Maxim Sytchev
National Bank Financial, Inc., Research Division

Okay. And I guess -- and Andrew, your comment around sort of preserving the capability if when sort of the market recovers, you still have sort of embedded expertise that doesn't go away, right?

Andrew P. Hider
CEO & Director

Correct, correct. And as a reminder, our workforce is, to an extent, ability to flex into areas for growth. And we're able to support the growth in life sciences right now, and we're able to utilize that workforce to really support and drive.

Operator

[Operator Instructions] Our next question comes from David Ocampo from Cormark Securities.

David Ocampo
Cormark Securities Inc., Research Division

Just two questions here. Ryan, about repurposing some of the square footage in EV to life sciences. But I'm just curious, with all the square footage that you guys have in Ohio, I seem to remember it being a pretty large number. Are there any facilities or leases that you're contemplating getting out of?

Ryan McLeod

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Chief Financial Officer

The short answer is no. We're not exiting any facilities. And even in Ohio, I mean a lot of that has been focused on EV over the last 2 years. but there is some life science work that gets done out of that facility. There's some, I guess, I'd call it a consumer that gets done under that facility. So it's not solely focused on transportation.

David Ocampo
Cormark Securities Inc., Research Division

Okay. And then just a last quick one here. Just on the tax rate, looks pretty elevated in the quarter. Was that largely driven by where the profits were generated? Or was there something that's materially changed within kind of how you're getting taxed.

Ryan McLeod
Chief Financial Officer

So there's a couple of dynamics. Part of it was the geographic split of profitability in the quarter. But we did have an expectation that our effective tax rate would increase, and that's based largely on changes in the jurisdictions in which we operate. So we do expect it to be higher in fiscal '25 vis-a-vis where we were in the last couple of years.

David Ocampo
Cormark Securities Inc., Research Division

So do you think the rate that we saw this quarter should be applying for the balance of the year, call it, 26%, 27% range?

Ryan McLeod
Chief Financial Officer

Yes. I think in the 25% to 27% range, we'll see some movement quarter-to-quarter. And I should also remind you that we -- I mean, we -- this is a focus of how we've structured the business globally, and we're always looking to maximize our efficiency in terms of taxes. And our focus, first and foremost, is on cash taxes and minimizing cash taxes and secondarily is on our effective tax rate.

Operator

Our next question comes from Patrick Baumann from JPMorgan.

Patrick Michael Baumann
JPMorgan Chase & Co, Research Division

Can you hear me?

Ryan McLeod
Chief Financial Officer

Yes.

Patrick Michael Baumann
JPMorgan Chase & Co, Research Division

Great. You may have mentioned this at the beginning of the call, but I wasn't able to join a few minutes late. Last quarter, you had mentioned that you thought that acquisitions you had done in growth in life sciences as well would offset the decline you expected in transport in terms of the 2025 revenue outlook. I was wondering if you provided an update on that. Or if not, if you could provide an update on how you're thinking about that?

Ryan McLeod
Chief Financial Officer

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Yes, sure. I didn't provide an update on that. But I mean the overall outlook hasn't changed. I think underneath there are certainly moving parts. Transportation sequentially from where we were 3 months ago, I would say, has become weaker. Life sciences sequentially has become stronger. And I mean, you can see in our results, very strong bookings in that quarter. We've closed Paxiom we expect to close Heidolph in the short term, which is additive. So I mean, well, Q2 is going to be a challenging quarter. We do see the second half being strong. And overall, we don't see a material change to our revenue outlook for the year.

Patrick Michael Baumann
JPMorgan Chase & Co, Research Division

Okay. And then separately on margin, did you comment on what drove the significant improvement in gross margin in the quarter and the sustainability of gross margin at that level?

Ryan McLeod
Chief Financial Officer

No, I didn't, but happy to. So a couple of things. I mean, 170 basis points or 168 basis points, a bit more precise year-over-year. We did see some benefit from acquisitions. And then as well some benefit from mix, including both higher service revenues and then a higher proportion of our revenues coming from life sciences, which does have a benefit at the gross margin level. Our operations performed very well in the quarter. I did reference in my prepared remarks that supply chain headwinds are easing. But that's going to take still a few quarters to work its way through a business. But yes, we're pleased with the margin performance in the quarter.

Patrick Michael Baumann
JPMorgan Chase & Co, Research Division

Is that high 29s something we should be modeling going forward? Or do you think it's going to step back down in the new term.

Ryan McLeod
Chief Financial Officer

Well, so there's -- I mean, there's going to be -- there's going to continue to be variability in the short term, as I talked about, given the sequential revenue decline we expect there are going to be headwinds mainly from utilization, which, again, we're taking measures to address through the restructuring actions as well as some temporary cost [complementary] measures that we have in place. And -- but coming out of that, we do expect to see continued strong margin performance.

Operator

We have reached the end of our Q&A session. I'd now like to hand back over to Mr. Andrew Hider for final remarks.

Andrew P. Hider
CEO & Director

Thank you, operator. We're pleased with our progress and the ABM will continue to support our focus on value creation for shareholders. I invite you all to participate in our Annual Shareholders Meeting which will be held virtually tomorrow at 10:00 a.m. Eastern time. Thanks for joining us today. I look forward to speaking to you on our Q2 call in November. Stay safe, and goodbye for now.

Operator
Thank you, everyone, for attending today's call. You may now disconnect. Have a wonderful day.

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