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Earnings Call

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Presentation

Operator

Welcome to the ATS Corporation Third Quarter Conference Call and Webcast. This call is being recorded on February 5, 2025 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 caution that the statements made on the 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 3 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 third quarter results for fiscal '25. This was the second highest bookings quarter in company history and included strong organic growth along with contributions from acquisitions. This morning, I will update you on our business and markets and Ryan will provide his financial report. And we will both touch upon the recent developments on tariffs.

Starting with our financial value drivers. Order bookings for the quarter were $883 million, up 32% from the third quarter last year. All of our market verticals contributed to this growth, with good diversification in bookings including large and small orders and contributions from our services businesses.

Q3 revenues were $652 million, down 13% from Q3 last year, primarily due to lower EV revenues as expected. Adjusted earnings from operations in Q3 were $66 million. Moving to our outlook. Order backlog ended the quarter at approximately $2.1 billion, with our trailing 12-month book-to-bill ratio at 1.18:1. We are focused on expanding our market reach through our capabilities, high-value applications that are complex to manufacture and where quality is critical, aligned very well with our strengths.

By building out our standard products and equipment and adding services and digital capabilities, we are also shifting to growing our levels of reoccurring revenues to help offset some of the variability in bookings over time.

On the recent developments on tariffs between the U.S. and Canada, if tariffs are implemented in the next month, we would expect some complexity in the short term. Our people continue their unwavering commitment to delivering customer value and to actively planning for and addressing any disruptions that will result from new tariffs and to meet customer requirements.

Regardless of how the challenge ahead may develop we rely on the strength of our teams, our disciplined processes and daily visual management tools to plan for and track impacts, improve our approach and pivot when necessary.

ATS has built on strong businesses with empowered and driven teams. We will continue to operate in a way that is best for the company and our shareholders and which is supportive for our employees and our customers. Moving to our outlook. Within Life Sciences, order backlog sits at a record $1.2 billion, an increase of 39% compared to Q3 last year, with strong bookings delivered in key submarkets such as radio pharma and GLP-1 auto-injectors, wearables and other medical devices.

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As an example of how we are expanding market reach, we booked a small order with an emerging customer in advanced robotic surgery in an order with a larger customer for a new application that also creates inroads into the surgical robotics space. Overall, our life sciences opportunity funnel is strong. We continue to build out our integrated solution set, leveraging our capabilities across our businesses to drive higher value for customers at each stage of their product life cycle.

Further, we continue to accelerate our growth strategy, the ongoing development of new products and solutions in the pharmaceutical manufacturing market to leverage Comecer, our [indiscernible] business in Spain, and our core automation capabilities.

In Food and Beverage, our funnel remains strong, and we ended the quarter with a record backlog of $252 million, an increase of 22% compared to last year. supported in part by our acquisition of Paxiom. As we move ahead on our Paxiom integration, opportunities continue to emerge for customer synergies and process improvements in areas such as secondary packaging, and digital solutions. In energy, our funnel remains strong, supported by refurbishment opportunities for nuclear power generation facilities and new nuclear builds, including both large scale and small module reactors over the long term.

We are well positioned to support customers in our areas of specialization including nuclear fuel fabrication, factory automation of modular assemblies for new nuclear builds, and nuclear waste handling. ATS is well positioned to serve as a strategic partner from the concept and design phases all the way to execution. In Consumer Products, our funnel remains stable with niche opportunities in areas such as automated warehouse solutions packaging. In the quarter, we received a warehouse solutions booking with an additional potential to combine the capabilities and capacity of different businesses to support this customer with their emerging sustainability requirements across geographies.

Within transportation, our previously announced restructuring activities continued to align our business with lower end market demand, particularly in EV. Our funnel remains stable with smaller opportunities that we have seen in prior years. However, in the quarter, we had a new EV customer win in Europe. On after sales, we expanded our higher value services, incorporating our digital capabilities. We are evolving our service plan offerings to drive greater customer adoption and retention. We continued the launch of our Connected Care hub in Cambridge, further expanding its operational capabilities and receiving several new customer orders.

On our performance-based services, we are building on the success and learnings from our pilot projects as we scale with additional customers. On our digital offerings, our funnel is strong, and we remain committed to serving as a global partner for continuous productivity optimization across our customer base. Our ATS business model continues to drive a culture of continuous improvement, innovation and resilience across the organization with strong engagement in ABM events completed across all ATS businesses and geographies.

By way of example, our CFT business, help the Kaizen event in November, dedicated to improving project management tools and best practices with a clear focus on data and sustainment to drive continued margin expansion.

As part of these sustainment efforts, they held a follow-up event as part of our Presidents Kaizen week in January. A great example of ongoing use of tools to drive steady improvement. I look forward to providing you with a broader update on our President's Kaizen events on our Q4 results call. The ABM is also a critical part of our M&A playbook used to integrate new acquisitions and drive towards targeted ROIC.

Our M&A funnel remains strong. and they actively cultivate opportunities across a range of target sizes and markets. In the short term, we are focused on bringing leverage to our targeted levels where we expand our pipeline of acquisition opportunities that align with our strategic vision for long-term value creation.

Integration activities are well underway on our recent acquisitions, and we remain confident in their long-term contributions to our growth. On innovation, we are deploying capital and empowering our talent to create differentiated solutions that drive value for our customers. In November, we brought together thought leaders from our businesses around the world for our annual Innovation Summit, branded building

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and innovation powerhouse. AI's potential to drive innovation and operational efficiency was a central theme. The event accelerated our efforts to create deeper collaboration on AI-driven initiatives across ATS.

This focus reflects our commitment to advancing technologies that enhance capabilities and deliver long-term value.

In December, we released our fifth annual sustainability report reaffirming our commitments and highlighting how we help our customers meet their sustainability goals. I encourage you to review the report where we highlight our progress over the past year broad examples of our approach to product design, handle more sustainable packaging solutions and increase the processing efficiency of our equipment.

In summary, strong third quarter bookings combined with a sizable order backlog, provide us the good foundation as we move through the final quarter of our year and look ahead to fiscal 2026. The disciplined execution of our strategy driven by our ABM tools, processes and culture will serve us well in achieving our objectives. Our ABM continuous improvement mindset keeps our teams engaged and dedicated to delivering customer and shareholder value. 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. Beginning with our operating results for the quarter. Order bookings were $883 million, an increase of 32% over Q3 last year. In Life Sciences, order bookings were our third highest on record following our top 2 Life Sciences bookings quarters in Q1 and Q2 of this year, respectively. In the third quarter, bookings were driven by a combination of organic growth and contributions from the recent acquisitions of Avidity, Paxiom and [Hanwha.]

Our trailing 12-month book-to-bill ratio at the end of Q3 was 1.18:1. Excluding transportation, this ratio was 1.2:1 and with all other market verticals, sustaining a book-to-bill ratio above 1. Q3 revenues of $652 million were 13.3% lower than last year. Strong year-over-year organic growth in life sciences, consumer and food and beverage, in addition to a 6% contribution from recent acquisitions, partially mitigated the expected declines in transportation.

Of note, revenues increased sequentially by 6.4% as we have begun to realize on the benefits of our strong order bookings over the past several quarters. Moving to earnings. Adjusted earnings from operations in Q3 were $65.7 million, a decrease of 35% from the prior year, reflecting lower revenue volumes primarily in transportation. Excluding acquisition-related inventory fair value charges, Q3 gross margin was 30.7%, a 216 basis point improvement from last year, driven by a more favorable mix, including higher-margin programs and an improved supply chain environment.

On SG&A, excluding acquisition-related amortization and transaction costs, as well as onetime contract settlement costs. Third quarter SG&A expenses were $136 million, a $22.7 million increase over the prior year, primarily as a result of SG&A in our acquired companies along with increased employee costs and foreign exchange translation.

As always, we're continuing to drive efficiency into both our existing operations and new acquisitions who have joined ATS. For further context, the onetime contract settlement costs that I referenced were within one of our life sciences businesses and related to a canceled program.

Excluding the mark-to-market impact related to changes in our share price, stock-based compensation expense was $3.7 million in Q3. Earnings per share was $0.32 on an adjusted basis, down from last year, primarily due to lower revenue volumes. Turning to our outlook. We concluded the quarter with an order backlog of just under $2.1 billion, and we expect Q4 revenues to be in the range of $650 million to $710 million.

As a reminder, this assessment is updated every quarter taking into account revenue expectations from current order backlog to new orders booked and build within the quarter. Margin expansion remains an ongoing priority. To achieve this, we're employing ABM tools in a disciplined manner to improve processes,

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our supply chain and standardization. Further, we continue to invest in innovation and services to drive growth.

During the quarter, we substantially completed the reorganization plan we announced in Q1, which was primarily intended to rightsize the cost structure of our transportation businesses to reflect current market activity. In the quarter, we incurred an additional $3.3 million of restructuring costs. On tariffs, as Andrew noted, we are monitoring the situation closely and are assessing potential impacts on our business.

Our global footprint and decentralized operating model, along with our proven ABM tools, give us flexibility to address disruptions over the longer term. While we await further information over the next month, we're actively working with our customers and suppliers to mitigate challenges that tariffs could pose to our collective businesses.

Moving to the balance sheet. In Q3, we generated cash flows from operating activities of $66.7 million. Our noncash working capital as a percentage of revenue was 30.3%. This value remained high as a result of our previously disclosed disagreement with one of our EV customers. While work remains paused on the projects, we have continued efforts to resolve this disagreement.

However, until it is resolved, working capital is expected to remain above our target level of 15% of revenues. That said, we did see good progress across the rest of our businesses on working capital efficiency, with xEV working capital values moving closer to our target range, even with the acquisitions of higher working capital intensive product businesses.

During the quarter, we invested $16.4 million in CapEx and intangible assets with an expected annual expenditure at the lower end of our previously disclosed range of $70 million to $90 million. Our innovation efforts in critical growth areas remains a priority. On leverage, at the end of the third quarter, our net debt to adjusted EBITDA ratio was 3.7x on a pro forma basis which includes full year contributions from our most recent acquisitions.

We remain committed to bringing our leverage to our target range of 2x to 3x. In December, we successfully completed an additional $200 million Canadian offering of senior unsecured notes as part of a single series with our August issuance of 6.5% notes due in 2032.

Proceeds from this transaction were used to repay outstanding amounts under our credit facility. In summary, order bookings were strong and diversified across our markets. Record order backlog in life sciences and food and beverage give us good revenue visibility going forward. We expect the short-term margin pressures from lower transportation revenues to continue to abate through our reorganization efforts as we drive improved volumes in transportation and continued growth in the rest of the business. Looking ahead, we're committed to building on recent positive momentum in our financial results as we finish out fiscal '25. We're encouraged by the progress our global teams are making in advancing our strategies and are confident that their efforts will generate value for customers and shareholders as we move forward. 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] Your first question comes from the line of Justin Keywood from Stifel.

Justin Keywood
Stifel Nicolaus Canada Inc., Research Division

On the margins, we saw a good expansion on the gross margin level year-over-year, up almost 200 bps. Should we anticipate that to start impacting the overall operating margins for fiscal Q4? Or will that take a bit longer for some of the reorganization activities to mature in some of the ABM initiatives to be implemented?

Ryan McLeod
Chief Financial Officer

Yes. Justin, it's Ryan. So short answer is, yes, we do expect continued margin improvement. But let me give you a little bit more context than that. So looking back on the year, Q2 really reflected the low point in our financial performance, and that was expected, and we did see sequential growth and margin expansion this quarter.

The growth has been across all our market verticals, with the exception of transportation, and that has helped drive margin improvement along with the actions we've taken to rightsize our cost structure.

So as we look forward, we do expect continued sequential growth to benefit our margins, but it will be modest in Q4. So our transportation business, while it's improved from Q2, the cost structure has been rightsized, and we've had good bookings in Q3. The revenues aren't going to ramp in that business until we get into more advanced stages with a lot of the new business we've just won. So we're going to see more benefit into fiscal '26. But again, short answer, improvement in Q4, but it's going to be modest.

Justin Keywood
Stifel Nicolaus Canada Inc., Research Division

And then on the Energy or Nuclear segment, good bookings or backlog growth up 58%. I think there was a big jump in bookings as well. Are you able to give some additional context there. Was that from a new customer or an existing customer? And what is the outlook for that segment going forward?

Andrew P. Hider
CEO & Director

Yes. So let me start there. So when we step back and look at this segment, as a reminder, we're a niche player, but we have a strong value for our customers. And we support -- now multi areas for this market. First one can do react to refurbishment. And we've seen and continue to see customers look to this area as a refurbishment to really look at green energy and nuclear energy being a power source that they can rely on. And so we see continued opportunity in that space. And we did see actually continued bookings within this market.

Additionally, and I've talked about this in the past, we support the SMR builds. And while it's early, and we still view this as a mid- to long-term area of focus. We have a strong lease position within that space, and we're working with several of the key leaders. And it's about getting the applications proven out and then ultimately in line and online to support energy.

We're seeing large-scale new builds as well as start to come into discussion. And ATS, if you look at the refurbishment, it's kind of effectively two things, it's decommissioning and then recommissioning. That's the recommissioning piece. And we have ability to support new builds on traditional as well as candy reactors, and then decommissioning and waste we play in as well as operations and maintenance.

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One additional one that we're highlighting and you'll see us continue to highlight is fuel fabrication. As these new solutions come online, it is an area and opportunity that ATS can really play in and support. And so -- while it's early, we are starting our position, and we have a strong position to be able to support the ramp-up in this space. So Overall, I'm pleased with the progress, nice growth and one that we do view as a strong value for our customers, yet it is a niche solution for our business.

Ryan McLeod
Chief Financial Officer

And Justin, just to add on the specifics, there was multiple customers that contributed to bookings in the space in the quarter.

Justin Keywood
Stifel Nicolaus Canada Inc., Research Division

Very interesting. And just finally, on the ongoing dispute with the large EV customer, the $175 million of assets that are to be invoiced or not delivered -- is that equipment able to be repurchased for other projects? Or is there still a view that it could eventually be delivered to the customer and paid for?

Ryan McLeod
Chief Financial Officer

The equipment has been delivered and to the best of our knowledge remains in production at customer site.

Justin Keywood
Stifel Nicolaus Canada Inc., Research Division

Is that -- just to be clear, is that the $165 million or the $175 million?

Ryan McLeod
Chief Financial Officer

All of it.

Operator

Your next question comes from the line of Cherilyn Radbourne from TD Cowen.

Cherilyn Radbourne
TD Cowen, Research Division

Andrew, I imagine that with the election of a second Trump administration tariffs and how to locate supply chain medium to long term or top-of-mind issues with your customers. Can you give us some color on the volume of your customer conversations lately and the key topics?

Andrew P. Hider
CEO & Director

Yes. So Cherilyn, when we look at our -- we're having discussions with our customers, and as a reminder, we do view that the short term is if these were to be implemented, going to be a bit dynamic -- mid- to long term, this is a real strength for ATS. And when we talk to our customers, we have the ability to build support and continue to support operations in core regions. And so it's a real strength for our organization.

And I highlight an example in our prepared remarks around the opportunity to support the warehouse automation space, where our global scale, our global footprint really played a big factor here as well as our continued focus on standardization and moving from a more complex product to ability to build in multi-locations.

So our conversations have been, I would say, more on the positive side in our ability to support yet our customers are still waiting to see how things truly shake out and where their focus is going to be for the future.

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Cherilyn Radbourne
TD Cowen, Research Division

That makes sense. Just thinking about another Trump policy mass deportation. Do you think that could result in a short-term boost in the food and beverage area, just given that there's a lot of undocumented labor that's acted in that space?

Andrew P. Hider
CEO & Director

Yes, so if you look at that space, and specifically in the U.S., you're going to find, of course, they're going to have a regulation around ensuring that they have documentation. All that said, when you see a change or a shift that the end product, so think that the actual fruit or the vegetable becomes a higher value, you will look at efficiency and you will look at process to be something you want to maximize. That's what we can support.

And so we do view this as an area of opportunity. I would say it's -- short term is not the word way we would characterize it, we would think this is a more mid- to long term.

That said, we are staying very close with our customers. We have a proactive outreach to ensure they understand where we can support. And we've also launched tools or solutions where we can help them really navigate these times. And one of them, and I'm going to draw on an acquisition early in the journey, Marco recently launched a solution set where we can now do [check weighing] in the field that aligns with pack houses.

Why that matters to our customers? It allows them to track and really understand the weights of their products, so they don't overpack and this is a real benefit. And so we're going to continue to see opportunities that align well there. All that to be said, we do view this as a little bit more in the midterm area.

Operator

Your next question comes from the line of Patrick Baumann from JPMorgan.

Patrick Michael Baumann
JPMorgan Chase & Co, Research Division

On the orders, a couple of ones here. Are there any big bookings worth calling out that benefited the quarter that you'd want to highlight? And then thinking about the backlog and the translation into sales, can you talk about why the sales are sort of lagging what they had, I guess, before the EV downturn? And relative to that backlog and then particularly thinking about '26, like can some of these longer-cycle orders start to translate?

And can you see an organic growth rate that's above that long-term target of mid-single digit plus?

Ryan McLeod
Chief Financial Officer

So I'll start with the profile of the orders and try and talk through how those are going to get delivered and how that flows through revenue. So there were a number of big, what we would call "big programs" in the quarter. Typically, we look at our top 10 and on average, that was about $30 million across those top 10, well diversified across every single market vertical -- was within our top 10, which was a real benefit.

And then as Andrew noted in his prepared remarks, we had lots of small and midsized orders that support as well. So when we have a strong bookings quarter like we did in this quarter, there typically is a benefit from some of these larger orders. Now in terms of how these get revenued out or produced. So typically, a larger order, and this is a general rule of thumb, they're going to have longer delivery periods.

And could be going to multiple sites. It could just be the complexity of the equipment. But think 12 to 18 months is sort of an average delivery period for those projects.

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So how that flows through our revenue is the first several months, there's going to be a design phase, which is a lower revenue-generating period. And then as the equipment moves into production and assembly on our shop floors, that's when we get into those higher revenue-generating period. So we do expect to see a benefit to our organic growth rate into next fiscal year as a result of the bookings and backlog we've seen this year.

But there can be a 1- to 2-quarter lag from a large booking until we really start to see it materially impact our revenue run rate.

Andrew P. Hider
CEO & Director

And Patrick, Ryan hit it very strong bookings quarter. I was pleased with the progress here. And as you look, our funnels remain healthy in the core markets we support. So not only we continue to execute, we're looking for areas to drive expansion. And I referenced a couple of those even in the prepared remarks around the surgical space. So pleased with the progress, more to come.

Patrick Michael Baumann
JPMorgan Chase & Co, Research Division

Sorry, just a follow-up on that $30 million number. How does that -- so what is your typical top 10. I don't know how to think about that $30 million relative to...

Ryan McLeod
Chief Financial Officer

Yes, no. Typically, we're in the $20 million range. it could be low to mid-$20 million range. I'd say that's more average, if I look over the last 8 quarters in terms of where we've been. This was on the higher end being $30 million. And we've had sort of lower end would be mid-teens.

Patrick Michael Baumann
JPMorgan Chase & Co, Research Division

And then I was wondering if you could put a finer point around the improvement you expect in fourth quarter margin. I think you had previously talked about maybe getting back to first quarter levels by the back part of the year. Wondering if you could kind of frame for us where you are relative to those expectations based on your revenue trajectory that you've guided to for the fourth quarter?

Ryan McLeod
Chief Financial Officer

Yes. So in terms of a piece of the part in terms of our gross margin, we've seen year-over-year a good benefit from a couple of different areas. One is mix. So Life Sciences typically is going to benefit our gross margin and relative to a year ago where we had more transportation. So that's been a benefit to our gross margin. We've seen a benefit from continued growth in aftersales services as well as acquisitions. That's been a benefit.

There's been some offset in our gross margin from underutilization and that's begun in our transportation business, and we've taken action to address that. As we look forward, as transportation, and it goes from where it's been this couple of quarters, there is a bit of a headwind in terms of our margin. But from an operating margin standpoint, growth in transportation will benefit from where we are today.

In terms of our overall margin outlook, the revenue levels that we expect to hit in Q4, we do have some headwinds from an operating leverage standpoint, still in our business.

And so again, as the business continues to grow as we see the improvement in our transportation business, we do expect that operating leverage will improve but it's going to be more modest in Q4, as I noted.

Patrick Michael Baumann
JPMorgan Chase & Co, Research Division

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No kind of like no color on the absolute margin that you want to provide to get people kind of aligned with how you're thinking?

Ryan McLeod
Chief Financial Officer

No, nothing that I would call out.

Operator

Your next question comes from the line of Maxim Sytchev from National Bank.

Maxim Sytchev
National Bank Financial, Inc., Research Division

Andrew, maybe the first question for you. I think your reference to an EV program in Europe. Do you mind maybe talking about your capability to carry out work in the geography? Because correct me if I'm wrong, a couple of years ago, we had restructuring there. So maybe some color on that side, please.

Andrew P. Hider
CEO & Director

Yes. So just a little bit more on this win. This was a customer or the end OEM is a customer from the past, and it's a slightly different application on their EV shift. Very pleased with the win and one we need to execute. We'll be using our global footprint for really building this capability out and that means multi-region. We do have capability in Europe and we can support this customer in region as well.

Maxim Sytchev
National Bank Financial, Inc., Research Division

Great. And then I think maybe a couple of quarters ago, Andrew, you were talking about the grid battery storage opportunity. I'm just wondering if there's any update on that project, please?

Andrew P. Hider
CEO & Director

Yes. So we continue to stay close in this space. I'll just say of the energy sector, nuclear is really showing signs of strength in that space. But grid storage is something we stay close on, and we're working with several of the key players. But I would say if you look at energy, nuclear is the area right now that we're seeing stronger growth.

Maxim Sytchev
National Bank Financial, Inc., Research Division

And I guess, I mean, I always recent announcements from obviously Darlington OPG. I mean it looks like there's definitely an inflection point. Like in terms of timing, is this kind of 12 months out or a little bit beyond that in terms of really seeing kind of like a ramp-up in revenue just so we're getting cover with our expectations?

Andrew P. Hider
CEO & Director

Yes. So we would say, when the announcements are made, it's usually a pretty lengthy process. So I would say greater than 12 months. And it's one that aligns well with ATS' value. That said, these are fairly lengthy programs and processes, and we engage early and focus on winning and focus on offering value for customers as they take these next steps.

Maxim Sytchev
National Bank Financial, Inc., Research Division

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Great. And then one quick question for Ryan, if I may. It looks like the tax rate is running a little bit higher kind of on sort of year-to-date basis. Could we see a bit of a reversal in Q4? Or how should we think about it from a modeling perspective?

Ryan McLeod
Chief Financial Officer

Yes. So I don't expect it in Q4, Max, and you're right, it is higher than what we had originally anticipated at the outset of the year. There's been some changes in the jurisdictions in which we operate in terms of tax legislation, and that's had an impact as well as our profitability in certain jurisdictions. So I don't expect to change. But I mean, as always, we're looking at how our business is structured globally to ensure we're maximizing our efficiency in how we operate and finance our businesses. But in the short term, I expect it's going to remain in line with what we've seen year-to-date.

Maxim Sytchev
National Bank Financial, Inc., Research Division

That's great. And then maybe if you don't mind, I'll sneak in one more. In terms of the working capital ex health care -- sorry, ex EV, do you mind maybe providing a bit of sort of goalposts in terms of how there are some that was performing there?

Ryan McLeod
Chief Financial Officer

Yes. So we're slightly above the 15% target that we have obviously, with transportation, that's what's putting us up in the 30% range today. But outside of that, we're just above the target. We did see good progress this quarter across the business. And that's -- some of these acquisitions we've added in, they do carry -- they're more product-based businesses. They carry inventory and they've come on with a higher working capital intensity.

So that's part of our improvement opportunity as we have other areas across the rest of the business to be more efficient, whether it's in commercial terms with customers receivables and our whole order to cash cycle, there's a number of areas that we're working to continue to improve to get back below that 15% target.

Operator

Our next question comes from the line of Sabahat Khan from RBC Capital Markets.

Sabahat Khan
RBC Capital Markets, Research Division

Great. You touched on this a little bit earlier, but I guess as we look forward to fiscal '26 some of the questions earlier around the bookings growth, maybe aligning better with the revenue. Can you just talk about sort of how capital allocation evolves into next year, sort of what is the focus on sort of leverage reduction from the current levels.

At what point do you need to get to for M&A to pick up? If you can just talk about your sort of outlook for capital allocation, leverage reduction and so forth through fiscal '26?

Ryan McLeod
Chief Financial Officer

Yes. So I mean as we talked about in our prepared remarks, our priority right now is on bringing our leverage into our target range of 2x to 3x. We're at 3.7% today. We've deployed roughly $180 million of capital into M&A this year. But where we sit, again, our focus is to bring that into the 2x to 3x range. Typically, that's 2, 3, maybe 4 quarters, just depending on what happens with new order flow and commercial terms on those. So that's our focus.

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In terms of M&A, as Andrew talked about, we're continuing to be actively cultivating. And if there was something that materialized, we would look at different ways that we could make that happen. But for now, the priority, as I said, is to reduce our leverage.

Andrew P. Hider
CEO & Director

And Saba, maybe I'll just add on a short sure point here. Look, we continue to call the better funnel is healthy. But as a reminder, even two of the three acquisitions we did last quarter, they were multiyear cultivation efforts. And so oftentimes, these take time, and we continue to stay close for the core markets, technology and solutions that we want as part of the future for ATS.

Sabahat Khan
RBC Capital Markets, Research Division

Great. And then there's a question earlier on nuclear. I just want to maybe get some perspective on your medium-term thinking around that market. Maybe as EV moderates, obviously, a lot of headlines around demand for new builds, SMR, refurbs, et cetera. Do you have some sort of perspective on what that energy or nuclear mix could go to in a few years as a percentage of revenue if that demand sustains at the level that we're seeing over the next little while?

Andrew P. Hider
CEO & Director

Maybe I'll start here. So look, we like our position in nuclear, and we like the niche capability we have to tie value for our customers. CANDU reactor has been the lead there. It's been a core focus of ours, and we're seeing even resurgence in that market in that space. All that to be said, when we look at the future, it will be a piece of the equation. Life Sciences will -- given it's shear size and growth trajectory will be our largest market.

Food is getting in a strong position, and then we will look to be in high-value niches like energy, like nuclear to really round that equation out.

Sabahat Khan
RBC Capital Markets, Research Division

And then just one last quick one. I guess, it sounds like the order bookings, et cetera, quite strong in Life Sciences. One of the other topics that came out of the new administration was sort of the new health administration there and their views on pharma. Have you noticed any change in tone from customers at all?

Like how are they thinking about planning for the next 1 to 3 years? Like is there maybe some projects that might be holding in their back pocket until they get a bit more visibility on the administration's priorities around health care? Or do you think it's business as usual for now until your life sciences customers are otherwise, just curious with all the political noise around the new health [admin], what the customers are telling us.

Andrew P. Hider
CEO & Director

Yes. So certainly, look, this is continuing to evolve. And what I can tell you is we are being very proactive in our outreach to ensure we have alignment to ensure that our customers know that we can support in region and on a global scale and a full technology suite of solutions for their ability to launch products. We have not seen a marked change in their approach to capability. Remember, and Sabahat, you know this, but as a reminder, we work with them on their really strategic product launches.

And so when you look at auto injector, when you look at radio isotopes in the identification treatment of cancer, and I could go down the list, we're often in very attractive spaces for our customers.

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And so all that to be set up, we haven't seen a marked difference in their behaviors. We are staying very close, and we also are looking to identify how this can be a strength for ATS and how we can truly position ourselves because of our decentralized global scale to support and really enable their ability to navigate these times.

Sabahat Khan
RBC Capital Markets, Research Division

Great. One last actual question, I'll pass on and after this. A lot of discussion about tariffs early. Is there any exposure to other inputs or anything like that from Mexico at all within your -- within new business and maybe any product moving -- finished product moving from U.S. to Canada I just to get a perspective on just the setup of your supply chain.

Ryan McLeod
Chief Financial Officer

Saba, sorry. Can you repeat the first part of that question I missed it?

Sabahat Khan
RBC Capital Markets, Research Division

Yes, is there anything coming in from Mexico to either U.S. weather inputs or things like that within your supply chain within the tariff construct. And then is there much finished product or inputs that come from U.S. into Canada in terms of whether it's your COGS or finished product?

Ryan McLeod
Chief Financial Officer

Got it. So some but minimal moving from U.S. into Canada in terms of our finished product. On our supply chain, yes, there is sourcing that comes from Mexico into the U.S. Typically, we are buying through distribution. So this is really -- we're getting into our suppliers, their supply chains and how they're set up. So that's part of the work we're doing right now is working with, particularly our critical vendors to understand their mitigation strategies. So for example, we do have a supplier that sources from Mexico.

And so one of the things they're looking at doing would be to ship directly to Canada and bypass moving through the U.S. So that would be a benefit for our Canadian operations. But that's very much the level of detail we're getting into with our suppliers to understand their supply chains, their mitigation strategies.

Operator

Your next question comes from the line of Michael Glen from Raymond James.

Michael W. Glen
Raymond James Ltd., Research Division

Ryan, maybe just to start. At a recent investor conference, you indicated that the path to that 15% margin target was something like 3 to 4 years away I don't recall you had really given a time frame on this trajectory. Can you just maybe speak to the path from the end of, say, this fiscal year towards that 15%? Like what are some of the major buckets that come into play to get you towards that level?

Ryan McLeod
Chief Financial Officer

Certainly, Michael. So when we put this out, that was, I'd say, pretty consistent with the general timing. And so that hasn't really shifted. A lot of what we're doing is focused on efficiency in our business, value accretive lines of business. So the supply chain capability, for example, that's a focus for us. It's been a very strong value generator for the company. Our teams have performed very well, continues to be a focus area.

Standardization is another area that isn't applicable across all of our business, but certainly in our larger project-based business as it is. And a good example there is all the work we're doing in auto-injector

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we've got a standard technology platform that gets utilized across all those solutions. So those are areas we're focused on. We're also continuing to build out a higher value areas such as our aftersales services business. there is our ongoing continuous improvement activities through our ABM.

So all of those areas are factors in helping us get to that margin target. I think this year, we've had headwinds largely in terms of our operating leverage with lower volumes in EV. So we've made some corrections there. But coming out of this, again, we really see that path continuing to be available to us on those margin expansion activities. And as the business continues to grow, we expect our operating leverage to continue to improve, and again, help support that -- the achievement of that objective.

Michael W. Glen
Raymond James Ltd., Research Division

So like from the end of this year, it's -- would you say that the split of improvement is roughly balanced between gross margin and SG&A leverage? Or does it skew more towards one bucket versus the other?

Ryan McLeod
Chief Financial Officer

Most of the areas where we've targeted are in our gross margin from getting back to, call it, baseline, that's going to be operating leverage.

Michael W. Glen
Raymond James Ltd., Research Division

And just going back to the cross-border dynamics. So that was a helpful disclosure provided about the mid-teens percentage of revenue from Canada into the U.S. Can you give an idea of what portion of that 15% could you move relatively seamlessly? I imagine some of the integration work, for example, you could move quite rapidly. Is there a way we can characterize what could be moved quickly and what would be a little more challenging to move?

Ryan McLeod
Chief Financial Officer

I'm not sure I would characterize any of it as easy. I mean there's complexity, and I think we use this word, but there would be complexity in the short term. So projects that are underway where we've got ongoing builds within our facilities, that would be challenging. And again, where I use the word complexity in the short term. Longer term, there is flexibility, 1/3 of our global capacity in terms of footprint is in the U.S.

And the U.S. actually represents our largest concentration of manufacturing space globally. About 20% of our people are located in the U.S. So we do have a significant presence. We have the ability to expand in the U.S., but it would be -- again, I'll use the word complex in the short term.

So I mean this is obviously a very dynamic situation. We are working and continue to work with our customers, suppliers on response plans. But at this stage, we're monitoring and we'll adjust as we need to.

Michael W. Glen
Raymond James Ltd., Research Division

And final one on my side. Can you just speak to the large EV customer in the order. Was there -- number one, is there anything left in backlog right now with the large EV customer? And then number two, was there any revenue contribution at all from that large EV customer in the quarter?

Ryan McLeod
Chief Financial Officer

On question 2, no revenues related to the customer dispute in the quarter. In terms of backlog, there is a small amount in backlog that is tied to commissioning work that has been paused.

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Operator

Your next question comes from the line of David Ocampo from Cormark Securities.

David Ocampo
Cormark Securities Inc., Research Division

Just two really quick clarification questions. Ryan, you touched a little bit on the leverage on getting it back down to that 2x to 3x range, call it, sometime next year on a fiscal basis. Is that under the assumption without collecting from your transportation customer and then in the event that it isn't -- does that push you well below the 2x range with the collection of the call the $340 million?

Ryan McLeod
Chief Financial Officer

So you're correct. That excludes any movement on the amounts that are under dispute.

David Ocampo
Cormark Securities Inc., Research Division

And then -- just a follow-up on Patrick's question from a little bit earlier, but just diving a little bit more specifically into one area. I think a few quarters ago, you guys called out GLP-1 being 20% of your Life Science backlog, 10% of the overall, but I think it still represents a smaller proportion of your revenue. Do you guys expect the time line of the revenue ramp to follow that consistent pattern of the 1- to 2-quarter lag as you through some of the more engineering and design work? Or is there a longer ramp as it relates to those products?

Ryan McLeod
Chief Financial Officer

It's slightly longer ramp just based on customer delivery requirements and the size and scope of some of the programs. But it's not materially different.

David Ocampo
Cormark Securities Inc., Research Division

And then as it relates to milestone payments in terms of the cash collection, is it pretty consistent with what we've seen in the past from ATS? Or is it kind of tilted towards more of the EV style big milestone payments towards the end?

Ryan McLeod
Chief Financial Officer

I'd say more consistent with what I would call our standard terms. So better than what we see in transportation. But I would also just caution on that point. With big programs, you still have a big milestone payments. So even though they typically come in earlier, they're better commercial terms from that perspective, they can still be lumpy.

Operator

As there are no further questions. I will now turn the call back over to Mr. Hider for closing remarks.

Andrew P. Hider
CEO & Director

Thank you, operator, and thank you, everyone, for joining us today. I look forward to speaking to you on our Q4 call in May. Stay safe, and goodbye for now.

Operator
This concludes today's conference call. Thank you for your participation. You may now disconnect.

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