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Earnings Call

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Call Participants

EXECUTIVES

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ANALYSTS

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Michael W. Glen
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Unknown Analyst

Presentation

Operator

Welcome to the ATS Corporation First Quarter Conference Call and Webcast. This call is being recorded on August 6, 2026, at 8:30 a.m. Eastern Time. [Operator Instructions] I'd now like to turn the call over to David Ocampo, Head of Investor Relations at ATS.

David Ocampo
Head of Investor Relations

Thank you, operator, and good morning, everyone. On the call today are Doug Wright, Chief Executive Officer; and Anne Cybulski, Interim 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 in Slide 3 of the slide deck.

And with that, it's my pleasure to turn the call over to Doug. Doug, over to you.

Douglas William Wright
CEO & Executive Director

Thank you, David, and good morning, everyone. Today, we reported first quarter results for fiscal 2027. Before discussing the quarter, I want to provide an update on conclusions from my portfolio review, the long-term demand profile in our chosen end markets and our path to margin expansion.

Since joining ATS, I've completed a comprehensive portfolio review and site assessments across the organization. This process gave me a clearer view of both the strengths of the portfolio and the opportunities ahead and reinforced my confidence in the quality and commitment of our people, the depth of our technical expertise and the strength of our customer relationships.

I was particularly impressed by the importance of our work our teams do every day. They solve complex scientific and manufacturing problems, help improve patient outcomes, support safe and high-quality food production and contribute to energy security. I am confident in the growth profile in the underlying markets in which we solve such problems and have such impact.

Across all of our solutions and end markets, artificial intelligence is creating opportunities for ATS, both as a demand driver and as a capability that we are uniquely able to harness in our solutions because of our deep domain expertise. My overall optimism is reflected in positive outcomes across several areas of the business.

In life sciences, the trailing 12-month book-to-bill, excluding GLP-1-related activity, was approximately 1.1x, driven by strength in radiopharmaceuticals. We also delivered 11% year-over-year growth in service-related revenues across the company.

I have even more conviction today than I did in coming to ATS on the opportunities this company has in the markets in which we compete. It is this conviction that tells me that over time, we can operate above our stated operating margin target of 15% while continuing strong secular top line growth. What will turn this conviction into performance are the frameworks that we are now applying across the business.

First, through the application of a disciplined cash return on investment framework, we expect to achieve approximately half of the margin improvement required to achieve our 15% target, primarily through a fixed cost transformation program.

Second, through growth in higher-margin aftermarket services, stronger commercial discipline and innovation and improved application of our ABM tools, we expect to deliver the remainder of the improvement needed to achieve and exceed our 15% target.

On fixed cost transformation, we've initiated an 18-month program to simplify our operations, improve efficiency and strengthen the foundation for long-term profitable growth and shareholder returns. The program will include reductions in facility overhead, indirect expenses and SG&A.

The first phase focuses on Europe, where our review identified excess capacity and operating infrastructure that are not generating returns consistent with our requirements. We are consolidating certain facilities and transferring select technical capabilities to other ATS locations where existing capacity and capabilities can support customer requirements more efficiently.

Given the nature of these actions, the implementation and realization of benefits are expected to occur over several quarters. We estimate the initial phase of the European fixed cost transformation program to generate annualized savings in the range of $20 million, which is approximately 30% of the savings opportunities we anticipate from the overall fixed cost transformation program.

On the broader transformation program, we will provide updates on the expected cost-out opportunity as these are finalized along with the cost of the entire program. This program, together with our ABM, expansion of our aftermarket services business and our focus on regulated markets is intended to make ATS into an even more attractive company capable of driving sustained earnings power over time.

Now over to Q1. On near-term performance, Anne will discuss the quarter results in more detail in her prepared remarks. But in brief, Q1 adjusted revenues were down 5% versus last year, reflecting a lower opening order backlog, the timing of project execution and the planned reduction in large-scale automotive work. Despite this, we continue to see healthy levels of customer engagement across our markets, particularly in radiopharma.

Against this backdrop, profitability in the quarter also reflected the lower revenue base. On profitability, adjusted earnings from operations were $68 million, down 13% compared with Q1 last year.

Turning to our end markets, we ended the first quarter with approximately $1.9 billion in order backlog. Within life sciences, our opportunity funnel is active and well diversified across radiopharma, pharmaceuticals and medical device applications.

Radiopharma remains an attractive growth opportunity supported by increasing adoption of therapeutic applications, ongoing investment in isotope production and a shift toward more decentralized manufacturing to support timely patient access to treatment. As programs advance toward commercialization, we continue to observe broader market activity aimed at securing capacity, enhancing supply chain resilience and supporting reliable operations in highly regulated environments.

Our work with TerraPower isotopes reflects this investment as customers expand isotope production capacity to support future therapeutic demand. Our differentiated capabilities in containment systems, automation and life cycle support position us to participate in multiple phases of this capacity build-out.

Beyond radiopharma, the life sciences funnel includes opportunities in automated visual inspection, lab automation, contact lenses and wearable devices. In food & beverage, our funnel remains strong despite lower order activity in certain markets following elevated investment levels in recent years. We continue to see opportunities across core and adjacent end markets, including fresh fruit processing, secondary processing and packaging applications. Equipment replacement requirements may also support investment activity over time.

In energy, our funnel remains strong, driven by industry investment in energy security, infrastructure modernization and new power generation capacity to support data center needs. Within nuclear, ATS has a strong track record supporting CANDU reactor refurbishment and life extension programs.

Looking ahead, our opportunity set is broadening. In Canada and the United States, we are engaged with reactor technology companies in early engineering, systems design and prototype equipment development for small modular reactors and next-generation large reactor programs.

For reference, on a single nuclear reactor build, our portion of the project may represent a low single-digit percentage of the customer's total CapEx. For us, this could represent revenue of $50 million to $150 million based on the application. Within industrial & consumer, funnel activity remains stable with opportunities across warehouse and packaging systems and specialized industrial applications.

On capital allocation, leverage remains within our target range and our acquisition funnel remains active. Over the past 12 months, we have significantly strengthened our balance sheet, providing greater flexibility as we evaluate opportunities.

We remain patient and disciplined, focused on opportunities that are strategically aligned and capable of creating meaningful shareholder value. We will remain selective, but when opportunities align with our strategic priorities and meet our return requirements, we have the flexibility to pursue them while remaining disciplined stewards of capital.

Before I summarize the opportunity I have in front of us, I will turn the call over to Anne for her financial report. Anne, over to you.

Anne Cybulski
Interim CFO, VP & Corporate Controller

Thank you, Doug, and good morning, everyone. Before turning to our operating results, I'll provide some additional context.

We are driving improvements to our costs through our previously announced restructuring plan, and those actions are underway. In addition, we plan to take structural costs out of the business as part of our transformation program. In the near term, revenue mix and volume influence our reported operating margin. However, we made some progress during the quarter.

For example, in Q1, adjusted gross margin improved both sequentially and year-over-year, which we see as early evidence that some of our focused actions are working, particularly on aftermarket services.

In Q1, we incurred restructuring costs of $5.7 million against the first quarter expected spend of $10 million to $15 million. We expect to complete this initial set of actions in the second and third quarters as we continue to work through workforce and regional requirements.

As we drive improvements across the organization, we also completed other reorganization-related actions in the quarter. These actions resulted in $21.5 million of noncash charges in the quarter, primarily write-downs of assets that are no longer strategic going forward. We have adjusted for these items as nonrecurring.

We expect further restructuring and reorganization-related charges through the balance of the year to complete our previously disclosed Q1 actions, any margin protection actions warranted by market conditions and as we start to execute the broader fixed cost transformation program that Doug described. We will size those costs as the plans are finalized.

As Doug noted, about half of our path to 15% operating margins will be closed through our fixed cost transformation program and the remainder through our focus on margin-accretive aftermarket services, stronger commercial discipline, innovation and improved application of our ABM tools. The benefits are expected to build progressively as we implement the program actions over approximately 18 months, and we will report our progress.

Taken together, these actions will change our cost structure, not just our cost this year. The opportunity to fundamentally shift the way we manage our cost base underpins our confidence in scalable earnings growth.

With that, I'll turn to our operating results for the quarter. Order bookings were $656 million, down 5.3% from Q1 last year, reflecting large nuclear project awards in the prior year period. Timing also played a role with some anticipated Q1 orders moving into future periods. Bookings vary quarter-to-quarter. To reiterate, our view of mid- to longer-term underlying demand has not changed, and our funnel remains healthy across our chosen markets.

Adjusted revenues for the first quarter were $698 million, down 5.2% compared to last year, reflecting the lower opening order backlog and the planned reduction in transportation-related activity, partially offset by revenue growth in energy and services.

Moving to earnings. First quarter adjusted earnings from operations were $68.1 million, down 13.4% from Q1 last year, primarily on lower revenues with the benefit of our cost actions still ahead of us. Gross margin for Q1 was 30% of adjusted revenues, an 18 basis point increase on Q1 last year, primarily on higher-margin after-sales service revenues.

On SG&A, excluding adjusting items, expenses in the first quarter totaled $136.6 million, slightly higher than last year, largely on foreign exchange translation. Excluding the mark-to-market impact related to changes in our share price, stock-based compensation expense was $4.9 million in Q1, and we continue to expect normalized stock-based comp expense of approximately $5 million per quarter. Adjusted earnings per share for the quarter was $0.35.

Moving to our outlook. We closed the quarter with an order backlog of approximately $1.9 billion. On a combined basis, life sciences, food and beverage and energy represented more than 80% of our total backlog, supporting visibility across several of our more highly regulated markets.

Based on the expected conversion of existing order backlog, together with revenues from orders anticipated to be booked and billed within the period, we expect second quarter revenues to be in the range of $660 million to $700 million. As a reminder, this assessment is updated every quarter.

Looking across the balance of fiscal '27, we expect margins to strengthen through the second half as backlog converts and our cost actions take effect. The macroeconomic environment remains fluid, and we continue to monitor trade, tariffs and geopolitical developments. To date, these have not had a material impact on our business. Our global footprint and sourcing network give us the flexibility to manage these dynamics.

Moving to the balance sheet. In Q1, cash flows used in operating activities were $10 million. This was mainly related to timing of billing and collections on larger programs, and we expect improvement going forward. Our noncash working capital as a percentage of revenues was 14.3%. This measure can fluctuate between quarters, but we do expect to remain within our long-term target of 15% of revenues or less.

Working capital discipline, efficient asset utilization and cash generation remain a clear focus, supported by the internal frameworks we are deploying across the business. During the quarter, we invested $15.6 million in CapEx and intangible assets, including technology infrastructure and internal development initiatives. For fiscal '27, we continue to expect our CapEx and intangible investment to be between $70 million and $90 million.

On leverage, our net debt to adjusted EBITDA ratio ended Q1 at 2.9x. We do expect to operate within our targeted range of 2 to 3x through fiscal '27. As previously noted, we may temporarily exceed this range for capital deployment opportunities that meet our disciplined return criteria and support a clear path back to our target leverage range within an acceptable time frame.

In summary, we are advancing the previously disclosed restructuring actions initiated in Q1 and the broader transformation program announced today. Together, these initiatives are intended to reduce fixed costs and SG&A, consolidate our footprint, improve capacity utilization and increase capital efficiency across the organization with a clear focus on cash return on investment.

As a result, we expect a structurally lower cost base and stronger cash generation over time, positioning ATS for scalable earnings growth as volumes improve. That gives us confidence in our ability to create long-term shareholder value and returns.

Before we go to Q&A, I'll pass the call back to Doug to conclude. Doug?

Douglas William Wright
CEO & Executive Director

Thanks, Anne. My conviction in ATS is stronger today than when I joined the company. We participate in attractive markets with compelling long-term growth drivers. That, together with what I observed across the organization, reinforces my belief that we can, over time, operate above our stated operating margin target of 15%.

Through a focus on cash return on investment, we have the tools to address our fixed cost structure and improve returns. Through the ATS business model, we have the tools to improve operational performance and strengthen execution across the organization.

We have a clear plan, and now it's about execution, and I'm confident in our ability to translate that into improved performance and meaningful value creation.
Now we will open the call to questions from our analysts. Operator, can you please provide instructions? Thank you.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Sabahat Khan of RBC Capital Markets.

Unknown Analyst

This is Patty on the line for Saba this morning. So just maybe starting off looking at kind of your outlook for the rest of F '27, you also mentioned some kind of deal or revenue slippage kind of into future quarters and then calling out it might be dependent on a pickup in order activity through the rest of the year to kind of deliver on some -- your kind of expectations for modest growth this year.

So just maybe if you could give a bit more color on that. I think bookings in F '26 were down, call it, 10%. So what would you think you would need to comp maybe through the rest of the year to deliver on that? And if you could also give some incremental color on kind of the nature of that slippage you called out as well, that would be, I think, really helpful.

Douglas William Wright
CEO & Executive Director

Okay. Well, thank you. So we believe the modest organic revenue growth remains achievable, but it will depend on the timing of larger customer awards and the pace at which those orders convert during the second half.

The markets that we serve are very attractive, but they do have some level of lumpiness in them by the virtue of the fact that, in some cases, we're dealing with new science or major regulatory criteria that are driving things like nuclear and radiopharma. So they're inherently lumpy over the short cycle. But over the long term, they're very healthy.

So as an example, in the most recent quarter, we were very strong in radiopharma, and we were -- we had relatively weak bookings in nuclear. But that doesn't mean that those -- both of those markets are still very attractive long-term growers. So in the back half of the year, we would expect some of our lumpy markets to do a bit better than they did in the most recent quarter.

So I think it's just these long-cycle markets require us to have a bit of patience with the velocity of the actual backlog because just the nature of the markets that we're in. But clearly, because we started off the fiscal year slow, it will depend on us having strong recovery in order rates in the back half to be able to deliver on our full year guide. And as we evolve in subsequent quarters, we'll continue to update you.

Unknown Analyst

All right. Great. That's helpful. And then maybe just on the fixed cost transformation program, there's still about -- you've identified the European consolidation, the footprint consolidation there, $20 million, so kind of implies a full cost savings of about $60 million to $70 million.

So do you think -- have you evaluated Doug, basically the full business? Or do you see maybe there's room for more opportunity there as you kind of go through it? And yes, basic -- how would you see that evolving? And when maybe could we get more details on the next phases of the program?

Douglas William Wright
CEO & Executive Director

Sure. Well, first of all, the cost transformation program is a fully comprehensive view of our -- or will include a view of all of our manufacturing facilities where we have indirect cost in SG&A. So it's -- while we're highlighting the European item, it's -- I've been to all of our facilities in my process. So we have a comprehensive view there.

This is -- these will be meaningful changes to our cost structure. And I think you've highlighted sort of what the full quantum of the opportunity is. I would say that the run rate that we establish through these programs will be highly accretive to our margin growth rate.

The balancing act is that while we are being -- going to be very aggressive in driving what I would consider to be a good set of productivity actions, we are also part of some very, very fast-growing markets that require us to invest. So we certainly have a lot of -- if you just look at the math, there's certainly a lot of opportunity at a gross level, but we also have to be cognizant of how nuclear is evolving and how radiopharma is evolving, and we need to make sure that we continue to invest in those.

So we have what we believe is a fairly aggressive but balanced approach to our fixed cost action, respecting the fact that we still expect ATS to be a long-term growth company with some very important growth markets.

So it's a balanced approach, but it is very tactical and very detailed in terms of how we are going after underutilization and overcapacity and frankly, some SG&A that has built up that needs to be rightsized. But we also have to continue to invest in the long-term drivers of the company's future.

Anne Cybulski
Interim CFO, VP & Corporate Controller

The one thing that I would add to what Doug said is the way we've assessed the portfolio through his first 6-plus months on the job is really through a set of very pragmatic data-driven frameworks that allow us to identify where these opportunities exist. And we will continue to deploy those frameworks even as we're executing on this transformation plan.

We are fully aware of where we've tracked from a fixed cost perspective relative to our top line over the last number of years. And that's something that we are paying attention to. And as Doug said, will be included in the plan as we execute on it.

Operator

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

Cherilyn Radbourne
TD Cowen, Research Division

Doug, I guess I'm a little surprised that you see a major cost transformation plan as necessary. And I'm curious whether cost reduction was a large part of your initial thesis when you joined ATS or something that you uncovered on further analysis once you got inside?

Douglas William Wright
CEO & Executive Director

Cherilyn, good to hear from you. So I would say that the Board -- as I joined the company, the Board was aware that we had some areas of the business that we needed to manage through some restructuring, obviously, the transportation portion that we talked about last quarter. So there was some, I would say, pretty well-known and discussed cost actions that needed to be taken.

As I've gone through my site visits, I mean, I've been on site with all of our significant companies around the world, doing a full day strategy review and diagnostic. And I've applied a framework that we've developed in terms of how we look at cash return on investment, how we look at how the portfolio is performing at a macro level as well as at a sort of at a division level. And we simply have identified that there's more opportunity to be more productive.

It's a fairly simple framework, but what it did do was it identified that there are portions of the business that have invested in capacity that we don't need today to support our growth profile. And so I'd say it's a little bit of both, Cherilyn.

I think I knew when I coming in that there was opportunity that the Board had talked to me as I was coming on to the Board. And then as I did my diligence and visiting all the sites, I don't -- this is not a paperwork exercise. This was done walking through factories and walking through our operations with my team. And Anne and I built this framework out that allowed us to have visibility to where there was opportunity. And we see significant savings opportunities simply by, I call it, running the trains on time better.

Cherilyn Radbourne
TD Cowen, Research Division

Okay. That's helpful context for sure. And then separately, acquisitions have obviously been part of the growth agenda at ATS for some time. How do you sort of protect the capacity to do them while you execute this transformation program?

Douglas William Wright
CEO & Executive Director

Well, Cherilyn, clearly, from a human capital or team standpoint, that's a very important question that I have to manage through. I would say that in the growing parts of our organization, they will remain very focused on both organic and inorganic activity. We have a pretty dynamic flywheel and process that we run. We have a dedicated committee of our Board that we're always looking at opportunities for efficient deployment of capital and M&A.

Clearly, when there's a specific division that has a particular emphasis on substantial cost reduction activities, they have diminished capacity to take on more effort. So we have to be balanced in how we approach certain aspects of the portfolio. But the growing parts of the portfolio are -- there's been no change in appetite for M&A.

I would say, our cash return on investment framework has established -- we use it for internal investments as well as for our M&A investments, and it does set thresholds for how we look at the return on investment, and it's a little bit more granular and detailed now than with sort of the framework that I put in place, but it hasn't changed our appetite at all. But we clearly have some areas that we have to balance the need to run the trains on time with buying new trains.

Operator

[Operator Instructions] The next question comes from the line of Michael Glen with Raymond James.

Michael W. Glen
Raymond James Ltd., Research Division

Doug, I'm just hoping that maybe you can dig into the existing backlog and maybe give some insights into, are you happy with the margin profile of the work in the embedded backlog? Should we think about a smaller backlog on this margin-optimized company in the future? And what does the top line look like in -- when you hit that 15% operating margin?

Douglas William Wright
CEO & Executive Director

So thank you, Michael. I would say there's no correlation between our growth rate potential for the company and this higher margin profile. We -- I don't believe at all that the actions that we're taking have any effect on our ability to create demand. In fact, I think it actually will help us because it will allow us to allocate capital more fulsomely to the businesses that have substantial growth in front of them.

So in terms of the margin profile and backlog, I wouldn't comment on that. But I would say it's not -- there's no material difference in what we have in our current backlog versus existing run rates.

There's clearly -- this is, I think, something that I've spent a lot of time thinking through, Michael. I think the nature of ATS being exposed to really first-generation therapeutics in life sciences. And the really, really dynamic changes that are happening in energy demand around the world simply will make us a little more volatile in our program awarding for these large projects.

I mean some of these radiopharma projects are $100 million projects and some of these nuclear sites are, well, we've said today between $50 million and $150 million scale. So there will be a certain amount of dynamics in our order rates, the way we report them.

But I think the long-term growth potential of the business is getting stronger because we're more focused on our life sciences and energy segment. And even our food business is identifying opportunities to grow faster through virtue of more food quality and regulatory actions within food are also picking up.

So I think there's still a lot -- there's no correlation between margin -- our margin potential and scale. In fact, I could probably build a pretty reasonable argument for you that by investing more heavily in these more -- nuclear is obviously an area where we have very specific differentiation.

And in radiopharma as well, where we're in a situation where we have some of the best technology in the world, I think our margin profile can actually get better, and we can continue to see significant growth.

Anne Cybulski
Interim CFO, VP & Corporate Controller

Yes. And Michael, the only thing I would add to that is when we talk about the fixed cost transformation program and the scale and growth that we expect to continue to drive, as Doug described, we're really talking about creating flexibility in our cost structure in order to be able to operate efficiently within the context of those markets and the nature and dynamic of them the way that they operate.

Michael W. Glen
Raymond James Ltd., Research Division

Okay. And then can you give some insights into -- like the 18-month period that you're referencing, are you able to provide some insights into what should we think about margins exiting that period? Are we getting close to 15% at that point in time? Or is 15% would come another 18 months after you're done the program?

Douglas William Wright
CEO & Executive Director

I would say, Michael, it would be somewhere in between those boundaries you've defined. I mean, clearly, the cost actions and the decisions to exit facilities to rightsize the business, those will all be materially complete within this 18-month horizon. But how they actually map into a particular reporting period, will there be some variation there.

But clearly, a majority of the -- well, all of the actions that we've identified in this 18-month program will be activated by that time. But then, of course, they have -- they take time to accrue in there. So it would probably be somewhere in that horizon that you identified, somewhere 18 months plus would be fully absorbed.

But to be clear, there will be significant improvement in the 18-month horizon, but the full $70-plus million of savings, that clearly will be a run rate basis and then would accrue into that sort of second, third year.

Anne Cybulski
Interim CFO, VP & Corporate Controller

Yes. And just to clarify, Michael, on -- as Doug just described, we're talking about the 18-month horizon relative to this transformation program. And then we also described where we expect the remainder of the gap to our 15% target to come from. So we've tried to dimension it very clearly through the plan that we've laid out as well as some of the things that we've already been talking about, including services and the ABM.

Douglas William Wright
CEO & Executive Director

Yes. I think, Michael, the other perspective to have on this is that as an operator, I certainly have the capacity to drive more dramatic cost reduction in an 18-month horizon. Just looking at our numbers, you could see that for yourself.

But we are also investing in these new markets. So there's a balancing act that we have to strike in terms of making ourselves more efficient where we need to, but also we have to protect we will protect our investment zones because we're dealing with some markets that have the potential to transform ATS, and we want to make sure that we're in a position to benefit from that growth.

So we have to -- there'll be a balancing act. So could we hit the target in 18 months? Probably. But we're also investing at the same time. So that's kind of the, call it, the balancing feature of the next couple of years for us.

Michael W. Glen
Raymond James Ltd., Research Division

And I'll just ask one more. Are you expecting to make any dispositions or exiting any additional business lines apart from, say, transportation over the time frame?

Douglas William Wright
CEO & Executive Director

So we have nothing on the agenda for you today. What I would tell you, Michael, is that our cash return on investment framework process constantly evaluates where elements of the portfolio sit on -- if you think about the mean cash return on investment for ATS and you think about a broad portfolio of businesses, we're always looking at where those businesses sit. And in fact, we review this with our Board every quarter. I look at it every month. So we're always looking at where our businesses are performing.

So in the event that we were to identify a business that we didn't think we had the appetite to invest further to drive improvement in creating that better return, then we would consider dispositioning. But nothing -- so I'd say the process is there constantly. I do it at my level. Each of our groups and our division leaders have their own portfolio of product lines and smaller businesses. And we're building this framework as a way to align ownership behavior with all of our portfolio investments.

And therefore, if we were to identify an asset that was not performing and we didn't think it was we didn't have the ability or didn't have the appetite to improve it, then we would consider it for disposition. So I want you to be comfortable that we have a process for how we adjudicate your question, but there's nothing on the agenda at this moment that we're ready to act on.

Operator

[Operator Instructions] Your next question comes from the line of Justin Keywood with Stifel.

Justin Keywood
Stifel Nicolaus Canada Inc., Research Division

On the radiopharmaceutical strength mentioned, are we able to have some context as far as the subsegment percentage of sales, the book-to-bill and how you see that segment going forward?

Douglas William Wright
CEO & Executive Director

So I would say, first of all, it is the fastest-growing part of our life science business. The backlog is twice as material today as our GLP-1 backlog. So it is quickly becoming a material part of our life sciences business.

And the science behind this is really exciting for our team. I mean we're basically part of a new generation of oncology therapies. And it's a aside from the sort of -- the human element of these exciting new therapies from a business perspective, these are very, very complex manufacturing environments with a lot of safety and you're doing with radiological materials.

And these sites that our customers are building and that we're partnering with them are very substantial opportunities for ATS. We mentioned one partnership in our text today. There are several -- there's a whole ecosystem of investment going into this market that we are uniquely positioned to support. And these are material. I mean they're -- the size of these facilities would be a triple-digit opportunity addressable market for a company like ATS.

Justin Keywood
Stifel Nicolaus Canada Inc., Research Division

So just on triple-digit addressable market, sorry, are you able to just clarify that a bit?

Douglas William Wright
CEO & Executive Director

Well, what I'm saying is these isotope facilities that you've probably read about in the news, they are fairly large sites, and they require a lot of ATS equipment -- ATS category of equipment. And for a company like ATS, the addressable market per site would be in that ZIP code.

Justin Keywood
Stifel Nicolaus Canada Inc., Research Division

Okay. And just circling back on the operating margin target of 15%. I'm not sure if I missed this, but is it fair to assume that the base level today is 10%, suggestive of 500 bps margin expansion goal?

Anne Cybulski
Interim CFO, VP & Corporate Controller

Well, I mean, last year, we were around 10.6%. So our long-term stated margin target is -- EBIT target is 15%. And as Doug said today, we believe that as we continue to transform and grow the operations and the business participating in these high-growth markets that we have the opportunity to operate above that. But right now, we're targeting getting to that 15%.

Douglas William Wright
CEO & Executive Director

Yes. So Justin, just in terms of the cost transformation program, just to help you with your modeling, consider it to be around a 250 basis point potential over time. So 500 is a pretty good estimate, as you've already stated and confirmed. And about -- when we say half, that's kind of the way we would model it from -- the balance would be other items, including the substantial growth we're having in our services business, which is accretive, as well as other ABM-level improvements.

So -- but half from fixed cost, half from other within that other would be mix toward aftermarket, which would be reasonably material as well as the other pieces. And as you -- a number of you have asked us before sort of help bridge the margin expansion deliverable. We're trying to be a little more fulsome here and giving you a little bit of the chunks of the math to help you understand the quantum that we're targeting.

Operator

There are no further questions on the line. I will now turn the call back over to Doug Wright for the closing remarks.

Douglas William Wright
CEO & Executive Director

Thank you, operator, and thank you, everyone, for joining us today. We look forward to welcoming shareholders at our annual meeting later today and speaking with all of you again in our Q2 call in November. Have a good day.

Operator
Ladies and gentlemen, that concludes today's call. Thank you all for joining. You may now disconnect.