ATS Automation Tooling Systems, Inc.

Second Quarter FY 2021 Results Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the ATS Automation Second Quarter Conference Call and Webcast. This call is being recorded on November 4, 2020 at 10:00 am Eastern Time. Following the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time for you to queue up for questions. If anyone has difficulties hearing the conference, please press star, followed by zero for Operator assistance at any time. I'd now like to turn the call over to Stewart McCuaig, Vice President, General Counsel of ATS. Please go ahead.

Stewart McCuaig — Vice President, General Counsel, ATS Automation Tooling Systems, Inc.

Thanks, Operator, and good morning, everyone. Your main hosts today are Andrew Hider, Chief Executive Officer of ATS; and Ryan McLeod, Chief Financial Officer.

Before we begin, I'm required to provide the following statement respecting forward-looking information which is made on behalf of ATS and all of its representatives on this call.

You are cautioned that the oral statements made on this call will contain forward-looking information that involves risks and uncertainties, including those introduced by the COVID-19 pandemic. The actual results could differ materially from a conclusion, forecast, or projection in the forward-looking information. Certain material factors or assumptions were applied in drawing a conclusion or making a forecast or projection, as reflected in the forward-looking information. Additional information

about the material factors that could cause actual results to differ materially from the conclusion, forecast, or projection in the forward-looking information, and the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking information, are contained in ATS' filings with Canadian provincial securities regulators. Now, it's my pleasure to turn the call over to Andrew.

Andrew Hider — Chief Executive Officer, ATS Automation

Thank you, Stewart. Good morning, ladies and gentlemen, and thank you for joining us.

Through the second quarter, we continued to focus on our operations in this new environment, the health and safety of our employees, and delivering on commitments for our customers. Our second quarter featured increased order bookings and we finished with a strong order backlog. Operationally, we continued to improve our performance in the face of challenging business conditions. In September, we announced a reorganization plan for our Transportation business that included the divestment of non-core assets. Our teams have adjusted to the new environment, and are delivering value for our customers, but COVID restrictions continued to weigh on revenues in the quarter. Today, I will focus on a few key topics, update you on business conditions, and then Ryan will provide his report.

Starting with our financial value drivers, Q2 revenues were $336 million, down 2 percent from Q2 last year on lower services revenue due to travel restrictions and entry limitations at some customer sites. Our Q2 Adjusted EBIT margin was 12 percent, in line with last year.

Q2 order bookings were $403 million, up 26 percent from last year. This includes a previously-announced $20 million program for the design, build, and delivery of automated safety syringe manufacturing systems. These systems will support anticipated demand for routine healthcare and to treat the surge of COVID-19 patients.

Moving to our outlook, we remain cautious as the pandemic appears to be far from over. Period-end order backlog of $956 million provides us with a solid base of business to offset uncertainty in the short term. We're encouraged with quarterly booking activity.

By market, activity in Life Sciences remained relatively robust and included new mandates related to COVID-19 responses. Other activity in medical devices, pharma, and radiopharma has remained strong. We won a number of orders that follow on current programs, as well as orders from existing accounts that follow on with those customers. Life Sciences represented over 65 percent of our year-to-date bookings. We expect it will be a strong market for us over the long term.

In EV, we have seen regional differences in market development.

In Europe, previous investments in EV capacity and a slowdown in end-market demand have caused customers to focus their efforts on cash preservations and re-examine capital investment timing. In North America, some EV opportunities are moving forward, but overall, transportation market activity remains challenging.

In Consumer, conditions remain soft. Activity improved on opportunities in warehouse automation and food, which included contributions from MARCO.

In Energy, we continue to see activity in nuclear, including incremental demand for our digital solutions and services. Overall, our funnel remains healthy, but we expect customers to exercise caution given limited visibility on the future severity and duration of the pandemic and its economic impact.

On after-sales services, revenues were down year-over-year, and this business has not yet recovered due to travel and facility entry restrictions. That said, sequentially, after-sales service revenues were up double digits compared to Q1.

Q2 service bookings were up from both Q1 and Q2 last year. Despite limitations created by COVID, funnel activities for services is robust. Our regional networks and the use of digital support tools, including enhanced remote support, have increased customer confidence as travel challenges continue. Moving forward, we're focused on upgrade and maintenance opportunities, and digital services to ensure customers can operate at high levels of productivity in this environment.

In the second quarter, we announced a reorganization plan to help offset an expected downturn in our Transportation markets by the pandemic. This plan includes the closure of certain transportation facilities and workforce reductions primarily in Europe and Asia, and resulted in the sale of non-core assets. This will align our European capacity and cost structure to current and expected conditions in the transportation market. Ryan will provide further details on costs and timing.

Moving to the ABM, we've adjusted training and event methods to this new environment. Progress continues, and we have many opportunities for improvement ahead to support our growth and margin expansion plans.

A few ABM highlights from the quarter; a virtual ABM boot camp held in Europe resulted in 14 ABM-related events between two Kaizens. The resulting improvements in process and daily visual management helped enable the delivery of critical projects to customers on time, while implementing split shifts for the workforce to maximize safety of our employees and customers.

Another division conducted an event focused on streamlining the quoting process that yielded a 10 percent reduction in process time while improving quality.

We launched our commercial ABM, which focuses on improving our marketing and front-end processes. This included the launch of our new ATS website and multiple marketing Kaizen events. These efforts have resulted in increases in our digital marketing funnel by 47 percent. During a period of restricted travel and trade shows, this has proven to be instrumental on getting ATS in front of potential clients, and it has resulted in our upcoming ATS virtual expo we are holding in early December. The virtual trade show will include all ATS businesses, along with 38 of our growth suppliers. Presentations will include educational webinars that will introduce participants to automation and our core capabilities. We hope you will join us for this event.

To further tie Kaizen events to progress, a year ago we held an event that advanced the development of critical sustainability initiatives; our process to find what matters to our employees, customers, and shareholders in ensuring the sustainable performance of our Company.

As a result of that work, we published our first annual sustainability report this week. The report highlights many of the policies and practices that shape and guide our efforts, provides data on our initiatives and performance, and outlines our ongoing commitment to improve. This is an exciting

milestone in our sustainability journey, and I encourage you to review the report which is available on our website. Moving forward, we will continue to report on our sustainability commitments annually.

Turning to innovation, we completed the commercial launch of Symphoni, a digital manufacturing technology that improves productivity of automated assembly processes. It builds on the rapid speed-matching technology that we acquired last year from Transformix. Symphoni increases our capability in Life Sciences and other vertical markets, and is a key feature in the $20 million order we secured for automated syringe manufacturing.

The development and deployment of our digital service offerings are progressing as well. These products are ideally suited to the COVID environment, and will serve customers well as they optimize their production processes and look to ATS to rapidly supply their needs for service and parts.

We continue to prioritize investment in innovation. We recently completed work on our new ATS innovation centre, a state-of-the-art home for our (audio interference) team. This is a significant accomplishment for ATS and the team who supported the build. The Innovation Team is working on next generation ideas that will enable solutions to positive—positively impact our customers.

We've also been recognized for our efforts. In the second quarter, the Process Automation Group won the Fiat Chrysler Group CAPEX Supplier of the Year. I'm proud of the team's efforts to ensure customer success and to achieve this recognition.

Each of these initiatives demonstrates the innovative nature of our people and our ongoing strategic focus on creating value.

Moving to M&A, acquisitions have been, and will continue to be, an important element of ATS' growth. We have a good pipeline of prospects that is (audio interference) throughout the year. As I've outlined in the past, we evaluate acquisitions based on four criteria; the market, the strategic value of the target, how we will integrate and operate the target, and how quickly we can implement the ATS business model, and finally, the financial return. We have been engaged, and continue to cultivate key areas of interest. Of course, timing will be variable and our approach to deploying our balance sheet will be disciplined and strategic.

In summary, our second quarter performance demonstrates the resiliency of our workforce in delivering on our commitments. Our continued strength in bookings reflects the alignment we have with our customers and providing best-in-class solutions. We have made adjustments to operate in this new climate, and continue to provide value for our customers.

Going forward, we have a strong business with good backlog, a healthy balance sheet, and our ABM playbook that will enable us to create long-term shareholder value. We are focused on putting our business in a position to succeed through this challenging period and emerging in a stronger position.

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

Ryan McLeod — Chief Financial Officer, ATS Automation

Thank you, Andrew, and good morning, ladies and gentlemen.

Our second quarter performance featured year-over-year and sequential improvement in our order bookings. Revenues and operating margins both improved over Q1, but were lower than last year.

This morning, I will discuss our Q2 results; the reorganization, including timing and expected impact; and provide an update on our balance sheet.

Starting with operating results, our Q2 bookings were $403 million, up 26 percent compared to bookings of $321 million last year. The year-over-year increase primarily reflected new orders in Life Sciences and Consumer. Acquired companies and foreign exchange positively impacted orders by 4 percent and 3 percent, respectively. Compared to Q1, order bookings were up 24 percent, reflecting continued strength in Life Sciences and improvements in Transportation, Consumer, and Energy. Year-to-date bookings were $728 million, with a book-to-bill ratio of 1.1 to 1.

Q2 revenues declined 2 percent from last year to $335.5 million. Organically, revenues decreased 7 percent, primarily reflecting lower after-sales services activity due to travel restrictions and limitations on access to certain customer facilities. Acquired companies and foreign exchange provided a partial offset, positively impacting revenues by 2 percent and 3 percent, respectively. Sequentially, revenues increased 3.3 percent from Q1, primarily reflecting improved after-sales services revenues. Recall, April and May service activity was impacted by the pandemic.

Our Q2 ending backlog of $956 million provides us with a solid base to mitigate some of the economic fallout of the pandemic. Of note, Life Sciences represented 61 percent of our period-end order backlog. While all of our market verticals have been impacted by the pandemic, Life Sciences has been more resilient. Approximately $10 million of our reported order backlog relates to a previously-disclosed customer project on hold.

Looking forward, our revenue conversion for Q3 is estimated to be in the 35 percent to 40 percent range of backlog. While we are more comfortable in our outlook today than we were last quarter, the resurgence of COVID in many geographies and the continued uncertainty in the economy may impact the timing of customer decisions. We continue to operate with almost half of our workforce at home and the presence of extra health and safety measures in our facilities, both of which cause inefficiencies.

Moving to margins, Q2 gross margin was 27.2 percent, up from 26.3 percent last year despite lower after-sales services activity. Higher gross margin reflected the benefit of the Canadian Emergency Wage Subsidy which positively impacted gross margins by approximately $2.7 million, and improvements made in our cost structure and good program execution. Going forward, we expect continued pressure from operating inefficiencies and challenges in executing after-sales services work in this environment.

Moving to SG&A, on an adjusted basis, which excludes acquisition-related amortization and restructuring charges, Q2's SG&A of $50.1 million was $2 million higher than Q2 last year. Higher SG&A reflected incremental costs from acquired companies and the translation of foreign subsidiaries costs, partially offset by a $1 million benefit from the Canadian Wage Subsidy.

In regard to the reorganization we announced in September, this plan is intended to help mitigate the impact of downturn in the transportation market due to COVID. Total restructuring costs are expected to be approximately $14 million, which is down from our initial estimate of $24 million, reflecting the recently-completed sale of assets and transfer of employees from our German-based

subsidiary to the buyer. Eight million dollars was incurred in Q2, with the balance expected to be incurred in our third fiscal quarter. Of the $14 million expected costs, approximately $5 million are non-cash expenses.

Second quarter stock compensation expense was $1 million, up from a $1 million recovery in Q2 last year.

Our effective tax rate was 25 percent in the quarter, consistent with our expectations.

Finance costs were up by $1.3 million in Q2, primarily due to the $250 million cash draw on our credit facility which was repaid during the second quarter.

Q2 adjusted EPS was $0.26, down from $0.29 last year. Lower revenues, increased SG&A, and higher stock compensation expenses accounted for the decrease.

Moving to the balance sheet, in Q2, we generated cash from operations of $20.3 million compared to $57.6 million last year. Year-to-date, we've generated cash from operations of $67.3 million, up from $17.6 million last year, primarily reflecting the timing of investments in non-cash working capital. Our cash collections remain strong, reflecting the strategic relationship we have with our customers.

Our non-cash working capital as a percentage of revenue was 13.1 percent in Q2, up from 12 percent in Q1. Timing of deposits and program milestones caused the increase. Based on the strength of our bookings in Q2 and the payment terms on those programs, I expect that we will maintain our working capital as a percentage of revenues below 15 percent in the short term.

We invested $5.7 million in CAPEX and intangible assets in Q2, down from $13.2 million last year. Higher investments last year related to the expansions of certain facilities. As a reminder and as planned, our CAPEX budget this fiscal year is in the range of $30 million. Year-to-date, we have spent $11.5 million.

From a leverage standpoint, we finished the quarter with a net debt-to-Adjusted EBITDA ratio of 1.3 to 1. We have further room to deploy capital to pursue our strategy within our normal course target levered—leverage range of up to 2 to 2.5 times.

We ended the quarter with good liquidity consisting of cash of $163 million and availability on our credit facility of approximately $750 million. In the second quarter, we amended our primary credit facility and extended its maturity to August of 2022. Combined with our 2023 U.S. dollar bonds, we have adequate credit availability for the next several years.

In summary, our second quarter featured strong performance by our business despite the difficult environment. Our teams have done an excellent job in meeting customer needs while maintaining a safe working environment. The investments we have made in our operations, including innovation, capacity for our Life Sciences business, our services organization, and training our people in ABM and continuous improvement will serve us well as conditions normalize. The reorganization activity will improve our cost structure to manage through this environment and enable us to focus our investments towards higher return-generating businesses. We have a healthy order backlog, a strong balance sheet, and available liquidity that combine to provide us with a solid foundation to pursue our growth strategies.

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

Q & A

Operator

Ladies and gentlemen, we will now conduct a question-and-answer session. To allow as many voices to be heard as possible, please limit yourself to two questions per turn. If you have a question, please press star, followed by the number one on your touchtone phone. Your questions will be polled in the order they are received. Please ensure you lift your handset if you're using a speakerphone before pressing any keys.

Our first question is from Mark Neville with Scotiabank. Your line is open.

Mark Neville — Analyst, Scotiabank

Hey. Good morning, guys.

Ryan McLeod — Chief Financial Officer.

Good morning, Mark.

Mark Neville — Analyst, Scotiabank

Good morning. First off, great quarter. Well done. If I could just start on the margin, your gross margin's up 280 basis points quarter-over-quarter. I guess I'm just trying to understand how much of

that is mix, whether it be Life Sciences or greater aftermarket work, how much is from past restructuring? I guess what I'm ultimately trying to get at here is, is this a good starting point for going forward, or is there something that may cause it to step down a bit in coming quarters?

Ryan McLeod — Chief Financial Officer

Yes, so again, good morning, Mark. I'll walk through some of the factors that have impacted our Q2 margins versus Q1, so first, on the negative. The (audio interference) was down in the quarter by about just under $3 million. On the positive side, we did have more services work in the quarter, so I talked a little bit last quarter and this quarter about how April and May were particularly difficult from a after-sales services standpoint, so that was a positive contributor to our Q2 margins, and then the rest was really good program management volume and the improvements we've made to our cost structure, and if I were to quantify them, the services was about a third of the increase versus Q1, and the balance would be program management volume and improvements to our cost structure.

Mark Neville — Analyst, Scotiabank

Okay. I guess that when I think about going forward, it's—the Life Sciences, 61 percent of your business, aftermarket keeps growing. You get more scale, or you leverage the—with the higher volumes even for the coming quarter, there's no reason to think (inaudible) be any significant set down.

Ryan McLeod — Chief Financial Officer

Well, I mean, I'm not going to provide guidance on our margins going forward, but the factors I walked through—the wage subsidy, we will see a decrease this quarter. It's still a challenging environment to execute work in after-sales services. Program management, yes, I expect that's going to continue to be strong going forward.

Mark Neville — Analyst, Scotiabank

Okay. No, that's fair. Andrew, can I ask you a question? Maybe on the restructuring, again, I can appreciate there's some weakness in Transportation, but I guess our view is that it's not structural, and exposure to EVs is a good thing and maybe having capacity there would be a good thing, so maybe just your thoughts around—or maybe just comments around that. Again, a year from now, if the market's—the automotive market's fully back and the EVs keep growing, is there any risk that maybe you don't have enough capacity? Yes.

Andrew Hider — Chief Executive Officer

Yes, so Mark, (audio interference) saying. This is not an exit from EV. More specifically, actually, it's an alignment to what we do best in EV, which is sell the module and modular pack assembly, and aligning around that. The specific division or divisions that were impacted, and primarily the one in Europe, was a traditional ICE business, and they had done, call it, with a couple of customers, some EV work, and when we looked at the ICE impact and we looked at what was going on in Europe, we really right-sized the region for what we view as the potential for that space, and so to summarize, we don't view this as a limitation going forward, and for the relationships that we want to keep, we're going to continue to keep them.

Mark Neville — Analyst, Scotiabank

Okay. If I can just ask one last question just before getting back in queue, just on capital allocation; again, I'm just curious about what your thoughts on the buyback with the stock being where it is. I'm not sure where it's at this morning, but stock where it is, and maybe just on—again, on M&A, you provided some commentary, but maybe just—maybe ask in your appetite for actually doing something sort of in this environment, not just cultivating. Thanks.

Ryan McLeod — Chief Financial Officer

Yes, so Mark, I'll start. We do, I mean, as you're aware, have the NCIB in place, and we've been active in employing that tool.

Andrew Hider — Chief Executive Officer

That will continue.

Mark Neville — Analyst, Scotiabank

I'm sorry, just on M&A? Sorry.

Andrew Hider — Chief Executive Officer

No, that's the NCIB. It will continue, and it's coming up for renewal, and assuming we've got alignment with the Board, we will plan to continue that. As far as M&A, Mark, I mentioned it in my opening comments. It is an area that we are focused on, and continue to be an important element at

ATS, and we have a good pipeline that has increased. Some of the interesting dynamics of the COVID pandemic is that the shift to video calls and the ability to cultivate through that has actually increased.

Aligning schedules is always a challenge, and I would say that we've increased and we are—we have a healthy funnel and an executable funnel, and so we are going to be true to our four, which is the market, the strategic value, how we will integrate and operate, and financial return, but it—we are absolutely aligned, and as (audio interference), we view ATS' footprint as being a key enabler here. When we see an opportunity in, whether it's Europe or North America or Asia, we have the ability to be on site because we've got a footprint in the region, and it really does set us aside and allows us to really cultivate and/or assess the business.

One last point and I forgot to mention this, additionally, Phil Whitehead, who is on our Board, has been named Chair of the Strategic Committee focused on M&A, and that's also really been helpful and aligned with where we want to drive this, and so really pleased with that change, and it's a continuation of our focus and efforts.

Mark Neville — Analyst, Scotiabank

All right. Thanks, guys. Appreciate it.

Operator

Your next question comes from Justin Keywood with Stifel GMP. Your line is open.

Justin Keywood — Analyst, Stifel GMP

Good morning, and thank you for taking my call. Nice to see the resilience in the business in the quarter.

Andrew Hider — Chief Executive Officer

Thanks. Good morning, Justin.

Ryan McLeod — Chief Financial Officer, ATS Automation Tooling Systems, Inc.

Morning, Justin.

Justin Keywood — Analyst, Stifel GMP

Yes. I had a question on the order bookings. There was mention of some related to—for the fight of COVID-19. I'm just wondering how repeatable are these orders just in the COVID-19 area? Does the funnel activity remain robust?

Andrew Hider — Chief Executive Officer

Yes, so I'll take this in a couple of ways. First, the funnel activity is robust. We don't characterize the size of our funnel, but it is a meaningful percentage of the Life Sciences funnel.

Second, it's a dynamic area, because as we look at this syringe manufacturing process, this is—this could be considered normal course and the fight against COVID, and so we view that as an area that we say we can help regard this with these customers on whether they're increasing their output, reducing their supply chain risk, on-shoring, or in the fight against COVID, and so this really plays to the

area that ATS does best, and as a reminder, our key areas, first, our technology and innovation; second, our experience; third, our ability to execute.

The project we announced earlier in the year that went from 40 weeks down to 14 weeks and up and running, just a testament to the team's engagement (audio interference), and a footprint is also a key element, because customers look for support over the life of the equipment, and so we view this as an attractive area, but we also view this area as playing to what ATS does best, and we view this as a continuation.

Justin Keywood — Analyst, Stifel GMP

Absolutely, and understood, and then on the services revenue, it seems to me there's a few moving parts. There's some pressure in the revenue, but there's mention that the funnel and backlog remains robust, and I assume that the equipment has to be serviced at some point, so just looking kind of into next year, is there going to be an inflection point where maybe that revenue starts to trend back up to the double-digit growth area, or with the restrictions in place, does it still remain a bit unclear when that will happen?

Andrew Hider — Chief Executive Officer

I'll start with just saying restrictions do create a (audio interference), and our view is—and I know I mentioned this on a call earlier. One of the things we realized early on in the pandemic was the inability to travel, and we introduced our remote support tool, and we've got many customers that are aligned around that, and it helps them continue to process, but then also ATS to support. We view that

this is a business that's going to get back on track. Timing is going to be variable, and I'm not here to call the pandemic timing. What I can tell you is really solid bookings quarter for this section of the business. The funnel remains healthy, and we're going to continue to overcome obstacles to support our customer base.

Ryan McLeod — Chief Financial Officer

Maybe, Justin, just to add on to that as well, some of the service work we've booked this quarter is refurb work, and that can either be done at the customer's facility or done in one of our facilities, which is the case, so that's another area of the business that has direct—of the services business, specifically, that's not as directly affected by travel restrictions today.

Justin Keywood — Analyst, Stifel GMP

Thank you. That's helpful. Those are my two questions.

Operator

Again, if you would like to ask a question, please press star, followed by the number one on your telephone keypad. We do have another question from Mark Neville with Scotiabank. Your line is open.

Mark Neville — Analyst, Scotiabank

Hey guys. If I can just follow up on the aftermarket discussion—or the after for sales service, do you have a rough estimate for us how much of that business would be parts versus remote or digital or software-based?

Ryan McLeod — Chief Financial Officer

I believe parts is going to be less than 25 percent of that number, and digital is going to be something less than that as well.

Mark Neville — Analyst, Scotiabank

The remainder would be what?

Ryan McLeod — Chief Financial Officer

The remainder would be on-site support, refurbishing work.

Andrew Hider — Chief Executive Officer

Modifications.

Ryan McLeod — Chief Financial Officer

Yes.

Mark Neville — Analyst, Scotiabank

Okay. Thanks, guys.

Operator

Your next question is from Mac Whale with Cormark. Your line is open.

MacMurray Whale — Analyst, Cormark Securities Inc.

Hi. Just quickly on the conversion, when you look at the backlog, and I know you don't usually go into the different—the conversion of that backlog on a segmented basis, but when you go back and look at it, there's been some change, and I'm wondering if that's sustainable in the future in terms of the amount of revenue that you're getting out of the backlog—that you're getting out of Consumer, for instance, and the lower levels that you see in Life Sciences. I guess it's understandable given how the different sizes and how much those have changed, but I'm wondering if you could speak a little bit about the nature of the business and whether that—there's something permanently changed here because of the nature of the orders you got.

Ryan McLeod — Chief Financial Officer

There's nothing permanent. I mean, our backlog conversion is really driven by the specific backlog—projects we have in backlog and the timing of those projects, so when we have larger enterprise orders, some of those can be 12 months, 18 months, even 24 months, and in Consumer, specifically, we do have some shorter duration projects in that backlog that we've had over the last couple of quarters, but I wouldn't say any of this is permanent. It's really just a (audio interference) of the orders that we're executing at any given time.

MacMurray Whale — Analyst, Cormark Securities Inc.

Okay. Okay. I thought, perhaps, that the nature of some of the Life Sciences orders, there may have been a need to expedite that, whereas maybe in some of the other work would have been—you

talked about sometimes that the customer timing being pushed out in some senses, but I guess we should look at it more on a yearly basis. I know we shouldn't get into each quarter, but I just—I was curious because it's relatively consistent up until the last couple of quarters.

Ryan McLeod — Chief Financial Officer

Certainly, the last couple of quarters with some of the COVID-related programs, and Andrew talked about the test kit order that was executed in 14 weeks. I mean, that's a very unusual schedule, so there has been some of that recently, but you're right. In terms of looking at a specific quarter, there's nothing from a change in business or permanent trend that I would draw from this. It's best to look at this over the long term.

MacMurray Whale — Analyst, Cormark Securities Inc.

Yes, and then just to follow up on that, is there an implication on margin when that happens? Do you recoup any additional costs to deliver more quickly than you would normally be able to do or normally schedule to do? Do you bear more costs of that, or do you pass that through in the contract pricing?

Ryan McLeod — Chief Financial Officer

Well, so there's no additional—I'm not sure if I'm going to exactly answer your question here, but there's no additional costs based on the size of a project or margin difference necessarily. If we're accelerating a project, there might be additional costs related to working two shifts or deploying additional people on it, but those would be factored into the bid. From an overall efficiency standpoint,

the quicker we can get projects in and get them through our factory and out to customers, there's a benefit to that, of course, but from a specific project-by-project basis, it all gets factored in when we're bidding on the work.

Andrew Hider — Chief Executive Officer

At times, Mac, there is areas where they'll have an early delivery (audio interference) to the program, but it's certainly something we would drive to and ensure we've got a (audio interference) before we would move forward on the contract.

MacMurray Whale — Analyst, Cormark Securities Inc.

Okay, and then just following up on the whole business model and the changes that they—have been made there, in this new way of operating that you've had to deal with over the last couple of quarters, do you expect the pace of the Kaizen events or any continuous improvement, do you expect that there may be an effect down the road of less of those—less impact from those or less benefit from those, or do you expect that the changes that have been made will allow you to continue at the same pace?

Andrew Hider — Chief Executive Officer

Yes, so obviously, I'm not going to provide future guidance here, but what I can tell you is this team has just adapted and continues to adapt to overcome obstacles, and I talked a little bit about it in my opening remarks around the commercial ABM, and boy, it's just exciting times to watch how the team aligns around it to drive to the key metrics, and I just—I utilized one metric, but 47 percent digital

marketing funnel increase, and yes, it's certainly a starting point was low, but the team is very focused on execution, and so I would say it took us a little bit to understand how to do virtual Kaizens and adapt, but when I say a little bit, we overcame those obstacles very quickly and aligned around the two areas and we're now holding boot camps. We're now holding Kaizen events. We're now holding global events where we can really maximize our performance.

MacMurray Whale — Analyst, Cormark Securities Inc.

I guess, following on to that, the potential, then, is that even with—even if things were to go back to normal, there's probably a lot of things that you—that you'll probably retain and might actually be—allow you to be even more efficient in the future. Do you feel the same way?

Andrew Hider — Chief Executive Officer

I do. I do, and I know I'm pointing to this again, but the commercial ABM piece is a key area, and our Sales Team is—they do a great job selling ATS and ensuring that the value we bring to customers is aligned to their needs, and this is only going to help them, and so we've got a great team and they continue to focus on (audio interference).

MacMurray Whale — Analyst, Cormark Securities Inc.

Excellent. Thanks, guys.

Operator

Your next question is from Maxim Sytchev with National Bank. Your line is open.

Maxim Sytchev — Analyst, National Bank Financial

Hi. Good morning, gentlemen.

Andrew Hider — Chief Executive Officer

Good morning, Maxim.

Maxim Sytchev — Analyst, National Bank Financial

Andrew, now that we're getting close to two years on Comecer, was wondering if you don't mind maybe sharing some of the takeaways from that transaction. I don't know if you're willing to discuss some financial metrics, and maybe you'll provide a bit of an update regarding the radiopharma market in general if it's possible. Thanks.

Andrew Hider — Chief Executive Officer

Yes, I'll start, and then I'll certainly turn it over to Ryan to add here, so a couple of things, and Max, one of the things we've grown very comfortable on is our ability to integrate, and it was one of the bigger acquisitions since I've been on, and alignment to integration and ensuring that we can maximize the value with Comecer, and as a reminder, the thesis going in, the reason why we really love this business is not only the radiopharmaceutical space, but then also to work with ATS on joint projects, and what I can tell you is they're at or above expectations, and when you look at the radiopharma market, it continues to have attractive aspects.

One of the lessons learned, I would say, is we didn't really (audio interference) the market as well as we should have around cancer treatment, cancer identification, and the growth of isotopes that impact that space, and really align so people could understand the way that Comecer really provides value around isotopes, around identification, and then, ultimately, treatment.

They continue to be the leader, and they're growing at a very fast pace within that area, but then additionally—and this will be my last point before I turn it over to Ryan—is aligned around this aseptic filling, and now it's the joint win with ATS. We don't have the ability to announce the customer. It was a very big win, and we view that there's follow-on work, and I've been in meetings with customers on these follow-on opportunities that really aligns to how we want it to move with the business, so all in all, we're very pleased with the progress, very pleased with the performance, and it really has built our (audio interference), and a lot of lessons learned through the integration, but really taking those into future acquisitions.

Ryan, anything you would add to my update?

Ryan McLeod — Chief Financial Officer

I'm not going to get into too many specifics, but their bookings have grown double digits, particularly on strength in North America, which was a large part of our thesis when we bought the business, and their margins have expanded as well, and it's been a combination of operational efficiencies, good progress on supply chain, and this team has really, really adopted and driven the ATS business model and done a really good job improving the financial performance over the last 18 months.

Maxim Sytchev — Analyst, National Bank Financial

Okay. That's very helpful, and a great asset, and maybe, Andrew, just closing the loop around M&A, any colour, because I think the last time we spoke there was a bit of a gap between what the sellers are willing to accept in terms of multiples or what forward EBITDA they feel comfortable with. Where is that discussion point now? Are we getting closer to meeting somewhere in the middle, or how would you characterize these conversations?

Andrew Hider — Chief Executive Officer

I mean, look, our funnel is healthy here, and we've got a lot of conversations going on, and what I can tell you is multiples for good assets continue to be at a decent level, and what I can state is that we've got the four variables that we align around, and ensuring that the financial return is one of them, and our team is—Max, when I first came on, we were building out our team at corporate to really enable and drive M&A and engage and go through the process, and we've got KPIs around this. Further that, we've really started to align the business units to cultivate, and those are some of the best cultivators because they get and engage with businesses in areas that we want to target and markets we want to target, and so I would view that as a strength for us moving forward, and it's got to be something that we continue to leverage as we build out this plan.

Maxim Sytchev — Analyst, National Bank Financial

Okay. Fair enough. Thank you.

Operator

Again, if you'd like to ask a question, please press star, followed by the number one on your telephone keypad. Your next question is from Justin Keywood with Stifel GMP. Your line is open.

Justin Keywood — Analyst, Stifel GMP

Hi. I just had a question of clarification. The reduced restructuring charge from $25 million to $14 million, does that include any cash in the door from the divestiture, or is that accounted separately?

Ryan McLeod — Chief Financial Officer

That includes the cash proceeds from the assets we sold, yes.

Justin Keywood — Analyst, Stifel GMP

Okay, and that number—that's—do you anticipate any other changes, or that's pretty sound as it is?

Ryan McLeod — Chief Financial Officer

At this time, I don't anticipate any changes to that number.

Justin Keywood — Analyst, Stifel GMP

Okay. Thank you. I appreciate that.

Ryan McLeod — Chief Financial Officer.

You're welcome.

Operator

Mr. Hider, there are no further questions at this time. Please continue.

Andrew Hider — Chief Executive Officer

Thanks, Operator. I look forward to reporting our Q3 results in February, but I want to take a moment to state I can't be more proud of the great work the ATS team is doing, and it certainly shows in our results. Thank you for joining us today. Stay safe, and goodbye for now.

Operator

This concludes today's conference call. You may now disconnect.