ATS Automation Tooling Systems Inc.

Third Quarter Fiscal 2021 Results

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the ATS Automation Third Quarter Conference Call and Webcast. This call is being recorded on February 3, 2021 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 *, followed by 0 for Operator assistance at any time. I'd now like turn the call over to Shereen Zahawi, Director of Investor Relations at ATS.

Shereen Zahawi —

Great. Thank you, Operator, and good morning, everyone. Your main hosts today are Andrew Hider, Chief Executive Officer of ATS, and Ryan McLeod, Chief Financial Officer. For those who are joining us by phone, our remarks are accompanied by a slide deck, which is available at atsautomation.com.

Before we begin, I am required to provide the following statement respecting forward-looking information, which is made on behalf of ATS and all 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's filings with the Canadian provincial securities regulators. Now it is my pleasure to turn the call over to Andrew.

Andrew Hider —

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

Our third quarter featured record Order Bookings and Backlog. We continued to improve our performance in the face of challenging business conditions and drove meaningful margin expansion, in line with our long-term plan. We also announced several transactions. In December, we announced our intention to pursue a tender offer to acquire CFT Group, a global supplier of automated processing and packaging equipment to the food and beverage industry, an attractive growth market for ATS. And during the quarter, we reorganized our European transportation business as planned, helping to strengthen our position and performance in an important end market. Today, I'll update you on business conditions and then Ryan will provide his report.

Starting with our financial value drivers, Q2 revenues were $370 million, up 1 percent from Q3 last year and up 10 percent sequentially, primarily driven by higher contributions from our services business. Q3 Order Bookings were $435 million, up 18 percent from last year and 8 percent sequentially. Bookings were strong across most segments, with large customer awards in life sciences and consumer.

Our adjusted EBIT margin for the quarter was 11.8 percent, representing a 164-basis-point margin expansion versus Q3 of last year.

Moving to our outlook. We are encouraged by the strong Order Bookings activity. As the pandemic evolves globally, we are closely monitoring customer demand signals, and it's fair to say that some customers remain cautious about approving new CapEx spend. Our Order Backlog of $985 million provides us with a solid base of business to offset uncertainty in the short term.

By market, activity in life sciences remain robust, with broad-based strength in medical devices, pharma, and radiopharma. We continue to win new mandates related to COVID-19. This work represented around 18 percent of our life sciences bookings this quarter. Our focus on innovation and differentiated solutions is bearing fruit with new customer wins and higher share of wallet with existing accounts. Life sciences represented over 60 percent of our year-to-date bookings, and we expect it will be a strong market for ATS for years to come.

In EV, we're starting to experience some improvement in activity levels and intend to remain selective and focused on the right projects. Given recent industry announcements and plans for future customer capital deployment in EV, we continue to be bullish on long-term opportunities, particularly in North America where customers see the need to build capacity.

In consumer, we saw strength in warehouse automation and food, while cosmetics remained a little soft.

In energy, we continued to execute on our nuclear strategy and won our first major project in the US. This is an important development for ATS as it marks our entry into the attractive decommissioning space in the geographic diversification of the business.

On after-sale services, revenues were up in the high single digits year over year and up double digits compared to Q2, with broad-based strength across all vertical markets. Our regional service networks and the use of digital support tools, including enhanced remote support, have been instrumental in driving our ability to serve customers as travel challenges continue. Moving forward, we continue to refine our digital offerings by adding new capabilities, such as e-commerce, to improve customer convenience and reliance on ATS as a partner.

We're also growing capacity in our regional service networks to strengthen our local presence and increase customer confidence. By being more proactive and strategic in how we embed services in our CapEx projects, we see instrumental opportunities in retrofit and maintenance.

To summarize our outlook, we are encouraged by bookings this quarter and our funnel remains healthy. Similar to last quarter, the pandemic environment continues to introduce some timing and approval uncertainty as customers exercise caution around capital deployment.

Moving on, in the third quarter, we made substantial progress on the previously announced reorganization plan in our transportation business, including the sale of certain assets in Germany. This reorganization eliminates underperforming operations to protect future margins and allows us to bring greater focus to attractive niches in EV, where the ATS value proposition is strong and the risk-reward dynamic is compelling.

Moving to the ABM, our continuous improvement playbook, we are making progress by using virtual means to train and hold events. Through regular kaizens and other initiatives, we have identified additional opportunities for improvement to support growth and margin expansion.

A few ABM highlights from the quarter. We held seven kaizens across various ATS divisions. These events drove improvements in multiple areas, including sales, operations, and customer service.

One division in our life sciences group was able to achieve cost savings of 25 percent by identifying material savings, improving operational efficiencies, and making greater use of engineering designs. Our team at Comecer Netherlands was able to reduce production lead times for a key product by improving process flow and production area layout, which has led to higher customer satisfaction.

In commercial ABM, we refined our marketing efforts. We identified and implemented a new process and software tool. This is expected to result in a 5 percent to 10 percent improvement in our digital lead generation.

We also hosted our first ATS virtual expo in early December, which showcased our automation capabilities through live presentations and more than 40 display booths showcasing ATS and our growth partners. The event was well attended with more the 1,800 participants and generated leads which are accretive to our sales funnel.

Turning to innovation, we continue to prioritize investments in differentiated solutions that positively impact our customers. Teams across ATS are pursuing next-generation ideas in areas including linear motion technology, digital services, and modular and flexible manufacturing, just to name a few. ATS has also been recognized for its efforts and dedication. In the third quarter, Hologic, a key customer within our life sciences group, recognized ATS for our participation in the manufacturing scaleup of Hologic's innovative COVID-19 assay program. I'm proud of the work done on this assignment and pleased to say it's one of many ways ATS is building customer success around the world.

On M&A, acquisitions continue to be an important complement to ATS's organic growth. In the third quarter, we announced our intention to pursue the acquisition of CFT Group via a tender offer process. CFT is a global supplier of automated processing and packaging equipment and would serve as a platform for ATS in the food and beverage industry. It is well aligned with our strategy to target acquisitions in attractive and growing markets, with differentiated technologies and strong positions. Its complementary technologies can be combined with our existing capabilities to create unique customer offerings. The transaction offers strong synergies, earnings accretion, and an attractive return on invested capital.

The transaction is expected to close in the first quarter of calendar 2021, subject to achieving a 90 percent take-up on the voluntary takeover offer and customary regulatory approvals and closing conditions.

In addition to CFT, we continue to cultivate and evaluate a number of opportunities. Of course, timing will be variable, and our approach to deploying our balance sheet will be disciplined and strategic.

In summary, third quarter results demonstrated the strength of our business and our ability to adapt operations to the current climate. Booking activity is encouraging and reflects the alignment we have with our customers in providing best-in-class solutions. Going forward, our focus remains on sharpening our execution through the application of the ABM playbook to drive better performance. Our strong backlog provides good revenue visibility during this challenging period, while our healthy balance sheet enables us to act opportunistically when strategic prospects arise.

We are looking forward to closing the CFT acquisition and see a significant value-creation opportunity for our customers and our shareholders.

Now, I will turn the call over to Ryan. Of note, Ryan was named our permanent CFO in November. Congratulations, Ryan. Well deserved. Ryan, over to you.

Ryan McLeod —

Thank you, Andrew, and good morning, ladies and gentlemen. Our third quarter performance featured record Order Bookings and Backlog, and our revenues and operating margins both improved year over year.

Starting with a review of our operating results. Our Q3 bookings were $435 million, up 18 percent compared to last year. The increase primarily reflected new orders in life sciences and consumer.

Organic growth was strong, while acquired companies and foreign exchange provided an uplift of 2 percent and 3 percent respectively. Compared to Q2, Order Bookings were up 8 percent, reflecting continued strength in life sciences and improvements in consumer and energy. Year to date, bookings were $1.16 billion, with a book-to-bill ratio of 1.13:1.

Q3 revenues increased 1 percent from last year. Organically, revenues decreased 3 percent due primarily to timing of program activities and third-party materials. Acquired companies and foreign exchange positively impacted revenues by 2 percent each. Sequentially, revenues increased 10 percent from Q2, primarily reflecting improved service revenues. Our record Q3 ending backlog of $985 million provides a solid base to close out the fiscal year. Life sciences represented 61 percent of our period-end Order Backlog.

While we are pleased with the strength and resiliency of our business, in the short term, the resurgence of COVID in many parts of the world and continued uncertainty in the economy may impact the timing of customer ordering decisions and services revenues. Looking forward, our revenue conversion for Q4 is estimated to be in the 35 percent to 40 percent range of backlog.

Moving to margins, Q3 gross margin was 27.8 percent, up 267 basis points from last year. Higher gross margin reflected improvements made in our cost structure through our reorganization and other efforts and good program execution. Cost recoveries of $1.8 million were realized from the Canadian Emergency Wage Subsidy. Our teams have done an excellent job adapting to the current environment. However, margins going forward will continue to be challenged by the inefficiencies of operating with almost half of our workforce at home and the presence of extra health and safety measures in our facilities.

Moving to SG&A, expenses were $800,000 higher than last year. This year's costs included $8.1 million of acquisition-related amortization and $2.5 million of M&A transaction costs, which were partially offset by a $5.3 million gain on the sale of a facility as part of our reorganization plan.

Excluding these items in both periods, Q3's SG&A was $54 million, $3.8 million higher than Q3 last year, reflecting incremental costs from acquired companies and increased employee costs, partially offset by $500,000 of recoveries from the Canadian Emergency Wage Subsidy.

Regarding the reorganization we announced in September, this plan was implemented to help mitigate the impact of a downturn in the transportation market due to COVID. Total restructuring costs incurred this year were $14 million, of which $6 million was recorded in Q3 and $8 million in Q2. Following the sale of some of our European transportation assets in October, we are now completing the final actions in this reorganization and do not expect to incur further charges.

Third quarter stock compensation expense was $4.9 million, up slightly from the $4.5 million expense last year.

Our effective tax rate was 24.5 percent in the quarter, consistent with expectations.

Q3 adjusted EPS was $0.30, up 15 percent over last year. Our improved operating margins accounted for the increase.

Moving to the balance sheet. In Q3, we generated cash from operations of $79 million compared to cash usage of $7 million last year, primarily reflecting a reduction in working capital investment and higher profitability. Year to date, we have generated cash from operations of $146 million, up from $10.6 million last year.

Our non-cash working capital as a percentage of revenue was 8.7 percent in Q3, down from 13.1 percent in Q2 and well within our goal of maintaining working capital as a percentage of revenues below 15 percent. Timing of deposits and program milestones have caused the decrease.

Our cash collections remained strong in the quarter, reflecting the strategic relationships we have with our customers.

We invested $7 million in CapEx and intangible assets in Q3 compared to $15.7 million last year. Higher investments last year related to the expansions of certain life sciences facilities. Year to date, we have spent $18.5 million.

In Q3, we deployed $8.7 million under our normal course issuer bid; 512,000 shares were repurchased and cancelled at an average price of $16.93. We will continue to deploy capital under our share repurchase program as appropriate.

From a leverage standpoint, we finished the quarter with a net debt-to-adjusted EBITDA ratio of 0.8:1. On a pro forma basis, adjusting for the potential addition of CFT Group, our leverage would be approximately 1.9:1. We have further room to deploy capital to pursue our strategies within our normal course target leverage range of up to 2 to 2.5 times.

We ended the quarter with good liquidity consisting of cash of $225 million and availability on our credit facilities of approximately $777 million.

Subsequent to the end of the quarter, we completed our offering of US$350 million 8-year senior notes. The notes were issued at par and bear interest at a rate of 4.125 percent. We used a portion of the proceeds from the offering to fund the redemption of the US$250 million 6.5 percent notes, which were due in 2023.

Upon repayment of the 6.5 percent notes, we unwound our existing interest rate swaps and entered into new US/euro interest rate swaps to hedge a portion of our euro net investment. The swap transaction results in an effective interest rate for the new senior notes of 3.63 percent.

In summary, our third quarter featured strong performance by our business, despite the challenging environment. Our teams have continued to execute efficiently, ensuring customer needs are met while maintaining a safe working environment.

The investments and improvements we have made in our business are serving us well, driving operational improvements that have led to margin expansion. Going forward, we have a record 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 *, followed by number 1 on your touch-tone phone. Your questions will be polled in the order they are received. Please ensure you lift the handset if you are using a speakerphone before pressing any keys. One moment, please, for your first question.

Our first question comes from Cherilyn Radbourne with TD Securities. Your line is now open.

Cherilyn Radbourne — TD Securities

Thanks very much and good morning. I was hoping that we could speak about warehouse automation a little bit. Clearly, there's a big buildout of square footage that's underway, given what the pandemic has done for e-commerce. So I was hoping you could speak a little bit more about the award in the quarter and sort of what part of that warehouse market is addressable for ATS.

Andrew Hider

Good morning, Cherilyn. When we look at this market, so our solution today is a niche application, and it's really wrapped around taking multiple packages and bringing them into one singular package that would be shipped out to our consumer.

And when we look at this space, although we're in a niche application, we're continuing to assess areas that we view are aligned with what ATS can provide in the market, as well as where we can develop our technology. So today, it's a niche that we're focused on. We continue to assess areas for expansion.

Cherilyn Radbourne

Okay. And then, I was reading something interesting the other day in relation to Dubai where apparently rapid COVID testing has been rolled out quite broadly such that you have hotels, restaurants, stores, and so forth open without restriction. I just wonder, given the conversations that you have with multiple parties across life sciences, is that something that you can kind of foresee more generally around the world to get back to normal? And what could that mean for ATS?

Andrew Hider

Yeah. So, Cherilyn, I'll provide my view on this. And certainly, it's one of—there's different dynamics at play here, and one of them is around test kits. And as you're well aware, earlier in the year, we—or excuse me—early last year, we announced an award in the test kit process. And our mission has always been around enabling our customers to bring those to market to serve areas around the world.

And we continue to see potential. And as noted in the quarter, it was 18 percent of our life sciences bookings; 10 percent of our total bookings. And as the businesses around vaccine as well as testing continue to roll through, we view it as an area that we can really help our customers and then, ultimately, enable the safe return to normal operations.

But as far as timing goes, it's certainly a dynamic market, and it's one that we view—this is very much in line with what ATS can do to help in the economies and the customers we support, as well as having a meaningful impact on the fight against COVID.

Cherilyn Radbourne

Great. Well, that's my two. Thank you.

Operator

Our next question comes from Mark Neville with Scotiabank. Your line is now open.

Mark Neville — Scotiabank

Hi. Good morning, guys. Good quarter. And, Ryan, congratulations on the appointment.

Ryan McLeod

Thanks, Mark.

Mark Neville

Ryan, first question for you, just on the gross margin. I think you're up about 400 basis points year to date roughly. And you made a comment about sort of continued pressure on margin. I just want to be clear. That's not to suggest the margin needs to come down from here. It's just sort of making us aware sort of some the puts and takes that are still impacting the business. Is that right?

Ryan McLeod

Yeah. So we look at this quarter specifically. So we're up call it around the 270 basis points. And so, the big driver, about three quarters of that, is improvements in our cost structure, better program execution, and I talked a little bit about that in my prepared remarks. There is about 50 basis points which is related to the Wage Subsidy, and that's, as you're well aware, that's due to the revenue changes within our Canadian operations. But certainly, the benefit we're seeing in program management and our cost structure are sustainable. My cautionary language is really around the environment, and we've seen a number of regions that have returned to lockdowns. And that makes executing services, installations, commissioning, all that type of work more difficult, more challenging.

We've done a good job overcoming and adapting to the environment to date. But it's a dynamic environment. Andrew talked about some of the tools with the regional service network and digital tools in our service organization, and those have certainly helped. But it's a challenging environment still.

Mark Neville

Okay. That's fair. Thanks. Maybe just on the after-sales service part of the business. Again, it sounds like it was pretty healthy growth in the quarter. I'm just sort of curious as to sort of how that business is functioning now. And I know there were some challenges earlier in the pandemic; sort of getting in sites. It sounds like it's sort of digital, which is driving a lot of the growth. Just, again, maybe just qualitatively, sort of what's happening in the business; sort of where it's at, and, yeah.

Andrew Hider

Yeah. So, Mark, I'll start with just the obvious. In the pandemic, things are very fluid. And so certainly, obstacles continue to arise, and this group continues to overcome. And I'm going to walk through that overcome.

Early on in the pandemic, the team aligned and understood that it would be a challenge to be on site, and they launched several digital tools to really support our customers. And as you recall, close to last year at this time, customers really shut down and wouldn't allow us on. So remote support, different aspects where we could be able to really help them through this process was viewed positively, and many of our customers utilized that capability.

Now fast forward, and we continue to build out our regional network. You take, for example, the UK went on big lockdown. We have a team of service folks in the UK. They were able to utilize their skill set. So whether they were an automotive supporter or whether they're life sciences or whether they're in consumer, regardless of that specific skill set, we then now had smart glasses, which are the digital glasses. We had tablets. We also had capability and our ability to talk to the subject matter experts at core, at our headquarters. And it allowed us to start to utilize that footprint to really support and help our customers. And so, I would say the team certainly faced a lot of obstacles through the year, and they continue to overcome those obstacles to really enable this situation of where we're in today. And I just I walked through, saw growth in the quarter versus—sequentially, we saw growth in the quarter versus prior year. But additionally, really building out that support structure; building out that ability to truly help our customers.

All that to be said, to go back to my beginning, it is a fluid environment, and it's one we continue to look on how do we adapt and overcome.

Mark Neville

So I guess just like a follow-up, would there still be parts of that business that are challenged? I guess installation and maybe parts? And then, second, on the digital. So would your thinking be that

the gains being made in digital are sustainable sort of beyond the pandemic, just showing sort of how useful they are?

Andrew Hider

Yeah. So I'll take those in two pieces. Let's start with the first. And we do think, if customers go into lockdown, it does create a challenge. And it's one that we certainly are continuing to look at ways to support and drive.

Remember, our customers oftentimes are launching products that save people's lives. And so we are very much aligned with them. We talk to them frequently. We're engaged with them. But if they go into lockdown and don't let somebody on site, then it does create a unique challenge, and it's one that we look to continue to adapt and overcome.

As far as the digital aspect, this is an area that we are focused on, and it is an enabler, and it is an area of focus for services as well as digital tools. And as we looked, and we talked a little bit about the e-commerce. And this is an area that we're continuing to provide ease of use, ease of application for our customers to really make their ability to operate their business at the maximum level they can operate.

And so, when you look at services, when you look at PA. And it wasn't as highlighted, but PA is continuing to really enable many aspects of how to help our customers pull data from their equipment and then maximize the return. And we did a small acquisition within the quarter called Inimco. This is really wrapped around that ability to then draw to the cloud, utilize the data in the cloud, utilizing their specific tools to then improve efficiencies, whether it's across equipment or across plants.

And it is an area that we view we can really continue to drive and an area that we view as a real opportunity for us to bring the full breadth of ATS to our markets and to our customers.

Mark Neville

Okay. Just one last one. On the Inimco, I think you said in the MD&A, you mentioned sort of domain expertise. I'm just curious, is this something that's used in a particular end market or vertical? Or is it sort of something you can use across your business?

Andrew Hider

So it is more across the business. And as you think about Inimco, their real kind of area of expertise is being able to pull—so think about the channel to be able to pull the information to the cloud. And then also, within the cloud, they've got a standard set of packaged tools that allows them to then maximize that return. So OEE impact. And whether it's looking across multiple tools or multiple sites, that's the area of value. And we're continuing to look to build this out. And PA is taking a bigger piece of this as they are very close with customers on data and on being able to maximize that value of data.

Mark Neville

Okay. That's interesting. It's helpful. Thanks, guys. Appreciate it.

Operator

Our next question comes from Maxim Sytchev with National Bank Financial. Your line is now open.

Maxim Sytchev — National Bank Financial

Hi. Good morning.

Andrew Hider

Good morning, Max.

Ryan McLeod

Good morning, Max.

Maxim Sytchev

Andrew, just wanted to start with what I thought was an interesting post in relation to your involvement with GM and Ultium battery. Was just curious, I guess, two-part question. Typically, you kind of shy away from talking about clients. So what was kind of the change there? And maybe, do you mind maybe talking about potential I guess inflection point, for the lack of a better word, in terms of EV opportunities in North America specifically? Thanks.

Andrew Hider

Yeah. So with this, GM announced publicly their approach. And with that, they also referenced ATS as a key partner in that approach, in that process. And stepping back on this space, we've been in the EV shift in this specific area for greater than a decade now. And we've also reference this on our social media site, so you're welcome to see that.

But when you step back and look at this process, it's an area that we view we can bring a strong level of value to customers. And we reference one key item in our update, which is, in these applications, oftentimes there's 10,000 welds. Ten thousand. And if one of them has an issue, it could be up to 2 percent inefficiency.

And so when we look at capability, we look at what we've invested in technology, experience, as well as our footprint and capability to support our customers. It is an area that—again, we're very focused on our niche here and our area of value—but it is an area that we view we can positively support our customers as they transition to the EV launch.

In North America, we're seeing that as a potential, and we're seeing the movement. We're seeing the alignment to launching new products. And this announcement is just one of many examples of customers making the investment and moving forward in looking at their capacity and how they can improve their capacity and output.

Maxim Sytchev

Okay. That's very helpful. Thank you. And then, circling back on M&A opportunity/optionality. I mean, obviously, right now you're in the process of closing the Italian transaction. But given the fact that I would assume that COVID has pressured some of the smaller potential competitors, is there an opportunity to accelerate the M&A program? Just was wondering if you don't mind providing some thoughts there. Thanks.

Andrew Hider

Yeah. I mean, and I walked through this a little bit on the opening remarks, but I'll go into a bit more specifics around it.

Our funnel in M&A is very strong, and we continue to stay very close to it and cultivate. And I will state that cultivation has been a unique dynamic that now, virtually, it makes the ability to have meetings much quicker. And given our footprint, like the CFT discussion, we're able to be on site when needed because we're usually in region.

And so, to answer your question, there is a healthy funnel. We are very selective. You know our four criteria that we focus on strategically to drive value to ATS and our shareholders. And so there are targets that we're in discussion with and remain in discussion with. And when they become available, we're certainly in a position with our balance sheet that we can move forward as needed, as long as it meets our four criteria.

Maxim Sytchev

Okay. Excellent. That's it for me. Thank you very much.

Andrew Hider

Thank you, Max.

Operator

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

Justin Keywood — Stifel GMP

Good morning. Thanks for taking my call, and congrats on the quarter. I have a question related to the nuclear business. It was good to see the first US award. I was wondering if you had any additional colour on the type of customer there; opportunity for follow-on orders; and in general, how you see the nuclear space evolving for ATS.

Andrew Hider

Good morning, Justin. So let me walk through this one a little bit. Let me unpack this.

So this application is decommissioning. And as you're aware, and we've talked about it, we have done a really big focus on refurbishment. And as you think about that process, decommissioning is, call it, half of that. So when you go through refurbishment, you pull out, you decommission what was in use, and then you put in the new reactor, and then it can extend the life. This is just that half piece.

So we do have experience here. And what's exciting for ATS and our approach on this is, this is our first real meaningful impact in the US and an alignment to the decommissioning space.

And just to kind of walk through the high level of what this means or what it could mean, so a typical reactor is going to last anywhere from, call it, on average, between 40 and 60 years. And that's a typical lifespan. Why there's a variance is, they're going to do extensions and they're going to walk through that to get extensions. But the typical lifespan is between 40 and 60. And in the US alone, there's 47 reactors over the age of 40.

So now, let's break that even further. On the decommissioning, the total value of decommissioning is $600 million over seven to eight years. And of that portion with us, dismantling, et

cetera, it's roughly around 40 percent of that. And as you look at that, of that 40 percent, two-thirds is labour, which is the area of impact for automation. So call it $150 million per reactor as potential.

And why this matters, why this is big for these customers is, you don't want human interaction inside a nuclear reactor as much as possible. You want to look at automation to try and help. And so this is an area we view ATS can really help our customers. It's a critical aspect. It's a critical element. It's something that is going to continue for years to come, and it's an area that ATS has built an understanding and capability in. And therefore, this is a first piece we need to execute. We need to deliver. We need to show the value to this specific customer. But additionally, it's an area that we view as within our niche, within our area of focus, certainly can add value to our customers and add value to ATS.

Justin Keywood

Mm-hmm. Appreciate that. A few items to unpack there. For the refurbishing versus the decommissioning, would that be similar as far as an opportunity in revenue or the business size?

Andrew Hider

So refurbishment is a bit different. And when we talk about refurbishment, let's talk about, say, Bruce Power. And they're going through their refurbishment process, and they've gotten through on the first reactor, and there's six in the process, and they're starting on two and three, and it's really helping them. And it's CANDU reactors. So it's a little different in the reactor type.

Decommissioning is a different aspect. And again, it's an attractive area where automation can play a part, and it can really help as they go through this process. And in both, you're going to be in the reactor, so you want to limit human interaction. You want to limit the touch points. So that's why automation can be a key enabler here.

Justin Keywood

Okay. I appreciate that. Thank you for taking my questions.

Andrew Hider

You bet. Thank you, Justin.

Operator

As a reminder, ladies and gentlemen, please press *, 1 on your telephone keypad if you would like to ask a question.

Our next question comes from Mac Whale with Cormark Securities. Your line is now open.

Mac Whale — Cormark Securities

Hi, Andrew. I just wanted to follow up a little bit on the transportation segment. You talked specifically about one particular element, the expertise you bring. I was wondering can you speak to the differences in the business that you've had in Europe and how that will manifest itself in North America? And related to that, how far up the supply chain do you go? Is it really just in the battery packs? Do you go into cells? And do you go the other direction too, into vehicle integration?

Andrew Hider

Yeah. Good morning, Mac. So our focus is around that battery assembly area. And I say it because we do battery pack assembly. We also do pack out. And so it is in that general area of focus.

And to start, we continue to be successful in Europe, and we've launched many products there, and we've announced those products. We're also in North America and launched and talked about those products. And again, we've been in this space for greater than 10 years, which allowed us to really understand the nuances and areas that we need to focus on for development and really how we can maximize our technology to really bring that value to customers.

And so when you think about what matters to a customer in this, it's speed. Because one of the things we're finding with the EV market is, not only is it speed to market, but additionally, there's changes in the batteries. So as they're coming out with the new developments, they need a customer that can really move fast with them to help them enable getting those changes in because it could mean distance. It could mean an easier charging process. It could mean any of the above.

And so when we look at our focus, and I did mention this in the frameup, we've been very specific on where we want to place our area of focus for this market because we view we can have a high level of impact, a high level of value for these key areas. And the announcement from GM was one of them. We've had several others that we've announced around the wins in this space, and it's one that we continue to build out.

I will state, we don't want to be everything to everybody in this area, and so we're very focused on our specific niche.

Mac Whale

Okay. And is there opportunity? Do you see the opportunity as exploiting that niche with more customers? Or starting from that niche and expanding like you do in other business segments where you basically want more space of the manufacturing facility, so to speak? Right? So I'm wondering, which phase are you in in terms of growth?

Andrew Hider

Yeah. And what I can say is it's both. We're very focused on the technology and where we can differentiate our solution, while also we continue to engage with many customers on their journey to the EV shift. And so one of the things that's a bit different than this versus, call it, traditional ICE is that that

reference I had around the battery changes and the continued development where the cycle for a battery, we're viewing as potentially much shorter.

And therefore, as they look to automation, it would be an area that we need to continue to drive to have a solution that can be ready to market at a very fast pace. And that's what ATS does really well. And we've continued to drive that globally.

Mac Whale

Okay. And just the last question I had was about the M&A. You talked about the four criteria. Have there been any shifts in the metrics you use for evaluating those four criteria? Like do you find in this environment you need to shift those at all? Or make them narrower, so to speak? Or I'm wondering how the environment has changed the way you look at them.

Andrew Hider

Yeah. Certainly, market has been an interesting one for us to assess because you have to look at the impact from COVID. And there's good and bad for impact from COVID. There are businesses that have been greatly impacted on a positive and also on a negative. And so it is an area of shift that we look at in a very detailed fashion to assess the impact from COVID on the business and what that long term looks like.

And number two, and we're continuing to build this out, the strategic rationale and aligning to reoccurring revenue, areas that we want to drive impact. As we look at the food and beverage space, that is a meaningful entrance. Obviously, it needs to close and go through the process, but that allows us to look at additional add-ons in that space.

And so then that goes down to the third piece, which is how we're going to operate. And I'll just state that we continue to build our confidence around the ability to integrate and operate the assets.

And I referenced this on the call, but just as a reminder, with Comecer on the CFT update, we just did a quick update on Comecer. And the book-to-bill ratio on that business since acquisition is up 20 percent; the operating margin is up 300 basis points; and the aftermarket is up 200 basis points. And it's still, call it, early days in its alignment with ATS. We're really pleased with the progress. And their base business on radiopharmaceutical continues to be an area that we're very pleased with the progress they've made as well as the opportunity for synergies.

And lastly, and this is the dynamic around multiple/ROIC, the financial aspect of the business. And so there are many out there, and we're continuing to assess. Strategically, we're looking to really build ATS around businesses that are going to add value to our shareholders in the mid and long term, and ensuring that when we add business, it is in an area we want to really drive into.

And so, yeah. Certainly, it's changed. But additionally, I would say the target market has continued to grow in our ability with the addition of the food and beverage space. And we've had targets reaching out to us around the potential fit. And so I would say that the workload has increased, and it's a good thing. And certainly, we're going to be as focused around having that discipline to ensure it's the right level of value over the long term.

Mac Whale

Okay. Great. Thanks, guys. Thanks for answering those questions.

Operator

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

Andrew Hider

Thanks, Operator. To conclude, we are pleased with the performance this quarter and recognize the hard work and dedication of our teams across ATS that made this possible.

The COVID-19 pandemic, while certainly challenging, has brought out the best in our people, and I couldn't be prouder of the progress that we have made over the last year.

We remain focused on delivering innovative and high-quality solutions for our customers, providing a safe work environment for our employees, and creating value for our shareholders.

Thank you 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.