ATS Automation Tooling Systems Inc.

Fourth Quarter FY 2021 Results

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PRESENTATION

Operator

Good morning ladies and gentlemen. Welcome to the ATS Automation Fourth Quarter Conference Call and Webcast. This call is being recorded on May 20, 2021 at 8:30 am Eastern time. I'd now like to turn the call over to Shereen Zahawi, Director of Investor Relations at ATS. Please go ahead.

Shereen Zahawi — Director, Investor Relations, ATS Automation Tooling Systems Inc.

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 have joined 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 the forecasts or projections, 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 the conclusion or making a forecast or projection, as reflected in the forward-looking information, are contained in ATS'

filings with the Canadian provincial securities regulators. Now it's my pleasure to turn the call over to Andrew.

Andrew Hider — Chief Executive Officer, ATS Automation Tooling Systems Inc.

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

We are pleased to report another strong quarter for ATS, including record order bookings and backlog. After a challenging start to our fiscal year, brought on by the COVID-19 pandemic, our business rebounded nicely over the balance of the year. The fourth quarter marked the return to positive organic revenue growth and we continued to drive margin expansion in line with our long term plan.

During the quarter, we also announced a successful completion of the tender offer to acquire CFT, a global supplier of automated processing and packaging equipment to the food and beverage industry. The transaction closed in late March and our teams have started the integration work. We are excited to introduce a food technology platform at ATS and look forward to offering innovative solutions to meet our customers' needs.

Today I will update you on business conditions and then Ryan will provide his report.

Starting with our financial value drivers. Q4 revenues were $400 million, up 4.7 percent from Q4 last year and up 8.2 percent sequentially, driven by broad-based activity levels. Organically, revenue grew 5.4 percent in the quarter. For the full year, our revenues of $1.43 billion were in line with last year's revenues.

Q4 order bookings were $463 million, up 30 percent from last year and up 6 percent sequentially. Bookings were strong across most segments with large customer awards in life sciences and transportation. Bookings for the year were $1.6 billion, up 11 percent year-over-year, driven by large awards in life sciences and consumer products.

Our Adjusted EBIT margin for the quarter was 12.4 percent, representing over a 200 basis point margin expansion versus Q4 of last year and over 50 basis point margin expansion sequentially. For Fiscal 2021, our Adjusted EBIT margin of 11.4 percent represented a 40 basis point margin expansion versus last year's margins.

Moving to our outlook, our healthy backlog of over $1 billion provides us with a solid base of business and good revenue visibility. We are encouraged with the pace of vaccine rollouts in many of our global markets; however, for the time being we continue to operate in a COVID-19 environment and the inefficiencies that it entails. Our teams have made meaningful progress adapting to this new normal and we are pleased by recent order activity. We continue to closely monitor customer demand signals and are seeing activities pick up in some areas.

By market, conditions in life sciences are positive with broad-based strength in medical devices, pharma, and radiopharma. During the quarter, we won a number of mandates related to COVID-19, demonstrating the strength of our life sciences franchise and helping in the global fight against the pandemic. This work represented around 34 percent of our life sciences bookings and 19 percent of our total bookings in Q4, and covered awards in point-of-care diagnostics, vaccine syringes, and diagnostic kits.

We are also seeing the return of more traditional non-COVID related opportunities in the funnel. 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 60 percent of our annual bookings and we expect it will be a strong market for ATS for years to come.

In EV, we are seeing activity levels improve with a number of traditional OEMs and newcomers recently announcing plans for electrical fleets. We continue to be focused on the right opportunities and won a large award in the quarter. ATS has a long track record and proven expertise in battery assembling and test, and we look forward to supporting our customers' EV fleet goals.

In consumer, similar to last quarter we saw strength in warehouse automation and food, while cosmetics remained soft.

In energy, we continued to serve our customers in areas of refurbishment and decommissioning with strong execution and good line of sight to future opportunities in Canada and globally.

On after sales services, order booking showed sequential improvement and revenues were up double digits versus last year and stable sequentially with strength across all market verticals. Given the ongoing COVID-19 travel restrictions in many geographies, we continued to rely on our regional service networks and the use of digital support tools. We see additional opportunities to refine our aftermarket services to drive a better customer experience and are nearing completion on a digital commerce initiative to further enhance our digital value proposition.

To summarize our outlook, bookings were strong this quarter and our funnel remains healthy. While the pandemic environment continues to introduce some timing and approval uncertainty around capital deployment by our customers, we are encouraged by the recent pick-up in activity levels.

Moving to the ABM, our continuous improvement playbook, we are making progress by using virtual means to train and hold events. During the quarter, we held our annual President's Kaizen, which is a weeklong event attended by our senior business leaders. We also launched our first global virtual ADM boot camp.

A few ABM highlights from the quarter. We held over 10 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 greater standardization of parts and components with a tenfold increase in the number of standard parts identified and a 10 percent increase in supplier rebates. The approach is being replicated at other life sciences divisions.

Our ATS products group was able to develop a process to reduce lead times from approximately 12 weeks to eight weeks. The team identified efficiency opportunities in our procurement and production processes as well as scheduling and capacity planning. The team is on track to achieve the new lead time by July of this year.

Our industrial automation team hosted its first kaizen with a customer, designed to achieve a meaningful reduction in the project timeline. The event was a big success, resulting in a number of opportunities that ATS and the customer are jointly developing.

We launched our first virtual ABM boot camp, which runs over a six-week period and combines self paced learning with real time discussions with ABM leaders. The first session wrapped up in April with over 50 participants and positive reception. The new format enables us to continue scaling the training and demonstrates how businesses across ATS are using the ABM to deliver tangible results.

Turning to innovation, we continue to prioritize investments in differentiated solutions that positively impact our customers. During the quarter, our industrial automation division applied the ABM principles to establish new processes to improve product innovation and drive agile product development. This resulted in the team filing several new patents related to growing areas of our business. In addition, teams across ATS are pursuing next generation ideas in areas including linear motion technology, digital services, and modular flexible manufacturing, just to name a few.

On M&A, acquisitions continue to be an important complement to ATS' organic growth. Late in the fourth quarter, we welcomed CFT to the ATS family. CFT serves as a platform for ATS in the food and beverage industry and joins ATS' other food business, MARCO, to comprise a food technology group. This group is headed by Jeremy Patten, an accomplished ATS veteran.

Subsequent to the quarter, we announced the acquisition of BioDot, which we expect to close in calendar Q2. BioDot expands our life sciences capabilities in precise low volume fluid dispensing and enhances our position in the point of care and clinical diagnostic lab end markets. We will continue to cultivate and evaluate acquisition opportunities consistent with our proven strategy. Of course, timing of acquisitions will be variable, and our approach to deploying our balance sheet will be disciplined and strategic.

In summary, fourth quarter results highlighted the strength of our business and our ability to pivot and adapt operations to the current climate. Record booking activity reflected the alignment we have at 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, while our healthy balance sheet enables us to act opportunistically when strategic prospects arise. We look forward to closing the BioDot acquisition and finding more avenues to create value for our customers and our shareholders.

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

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

Thank you, Andrew, and good morning, ladies and gentlemen. This morning, I'll provide an overview of our Q4 operating results that featured continued growth in revenues and operating margins and record order bookings and backlog. I will then provide colour on our balance sheet.

Starting with operating results, our Q4 bookings were $463 million, up 30 percent compared to last year due primarily to organic growth. The increase reflected new orders in life sciences and transportation. Fourth quarter bookings included large orders related to COVID-19 point of care rapid testing as well as a large EV program win. Compared to Q3, order bookings were up 6 percent, reflecting improvements in transportation and continued strength in life sciences. For the year, bookings of $1.6 billion were 11 percent higher than last year due to increases in life sciences and consumer.

Organic growth was 7 percent while acquired companies and foreign exchange provided upwards of 2 percentage. Our book-to-bill ratio was 1.14 to 1. Q4 organic revenue growth was 5.4 percent over last year, primarily due to services in after sales parts. Acquired companies added 20 basis points to our growth while foreign exchange was a 90 basis point headwind compared to Q4 last year.

Sequentially, revenues increased 8.2 percent from Q3, primarily reflecting the timing of project activities. For the year, revenues of $1.43 billion were consistent with last year despite the impact of the pandemic, which was more pronounced in the first half of the year due to more stringent travel restrictions and reduced access to customer facilities. Organically, revenues decreased 3 percent, and this was offset by 2 percent growth from acquisitions and a 1 percent benefit from foreign exchange translation.

Our record Q4 ending backlog of $1.16 billion was 23 percent higher than last year's $942 million. Organic growth in backlog of 12.4 percent due to higher order bookings through the year partially offset by foreign exchange translation, with the balance of the increase related to $166 million of acquired backlog from CFT. Life sciences represented 50 percent of our period-end order backlog with consumer representing 24 percent, up from 10 percent a year ago, primarily reflecting the addition of CFT.

Looking forward, our revenue conversion for Q1 is estimated to be in the higher end of the 35 percent to 40 percent range of backlog. While we're pleased with the strength and resiliency of our business, in the near term COVID will continue to influence the timing of customer orders and services revenues.

Moving to margins, Q4 gross margin was 27.8 percent, up over 450 basis points from last year. Higher gross margin reflected improvements made in our cost structure through our reorganization and other efforts, improved program execution, and increased service revenues. Cost recoveries of $2.1 million were also realized from the Canadian Emergency Wage Subsidy.

Our teams have done an excellent job adapting to the current environment. Our operations have continued to overcome the challenges of operating with almost half of our workforce at home and the presence of extra health and safety measures in our facilities.

For the year, Fiscal '21 gross margin was 26.9 percent, up 154 basis points from last year. Higher gross margin for Fiscal '21 was due primarily through efficiency gains in our cost structure, improved program execution, and $12.2 million of recoveries under the Canadian Emergency Wage Subsidy program. Cost structure and program execution improvements were partially offset by lower after sales service revenues and other operational inefficiencies related to COVID-19.

Moving to SG&A, expenses were $2.5 million higher than Q4 last year. This year's costs included $8.1 million of acquisition-related amortization and $4.2 million of M&A transaction costs, which were partially offset by a $5.6 million adjustment for the contingent consideration related to the acquisition of MARCO. Excluding comparable items in both periods, Q4's SG&A was $54.8 million, $4.4 million higher than last year, reflecting increased employee costs partially offset by savings from the reorganization and other cost containment measures.

Fourth quarter stock compensation expense was $6.8 million compared to a recovery of $1 million last year. Q4 adjusted earnings from operations were $49.5 million or 12.4 percent compared to

$39.3 million or 10.3 percent last year. The increase in margin reflected efficiency gains made in our cost structure, improved program execution, and higher after sales service revenues.

Our effective tax rate was 9 percent in the quarter and 19 percent for the year, which is largely reflective of a $4.3 million non-recurring recovery recorded from tax planning opportunities implemented in the fourth quarter. Excluding the non-recurring recovery, the adjusted effective tax rate was 25 percent in Q4.

Adjusted EPS was $0.34 in the quarter, up 31 percent over last year. For the year, adjusted EPS was $1.07, up $0.01 from $1.06 last year. Our improved operating margins accounted for the increase.

Moving to the balance sheet, in Q4 we generated cash from operations of $39 million compared to cash generation of $9.7 million last year, primarily reflecting a reduction in working capital investment and higher profitability. In Fiscal '21, we generated cash from operations of $185 million, up from $20 million last year, reflecting improved profitability and lower investment in non-cash working capital. Non-cash working capital as a percentage of revenue was very low at 6 percent in Q4, down from 8.7 percent in Q3 and well within our target of maintaining working capital as a percentage of revenue below 15 percent. Timing of deposits and program milestones caused the decrease. While we're pleased with this result, we do expect our non-cash working capital investment to increase to a more normal range of approximately 10 percent during Fiscal '22.

Our cash collections remained strong, reflecting the strategic relationships we have with our customers. We invested $13.1 million in CapEx and intangible assets in Q4 compared to $18.3 million last year. Higher investments last year related to the expansion of certain life sciences facilities. In Fiscal

'21, CapEx was $31.6 million. Going forward, we expect to increase our CapEx investments in Fiscal '22 as we add capacity to support growth and continue to invest in innovation. Overall, our CapEx budget for Fiscal '22 is expected to be in the range of $50 million to $60 million.

We ended the quarter with good liquidity consisting of cash of $187 million and availability on our credit facilities of approximately $776 million. From a leverage standpoint, year-end net debt to Adjusted EBITDA ratio was 1.4 to 1, including CFT on a pro forma basis. Adjusting on a pro forma basis for the addition of BioDot, which we expect to close in calendar Q2, our leverage would be approximately 1.7 to 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.

In Q4, we completed our offering of a USD $350 million, eight-year, 4.125 percent senior notes. We used a portion of the proceeds from the offering to fund the redemption of the 2023 USD $250 million 6.5 percent notes. We recorded one-time finance cost of $9.1 million related to the redemption. Upon repayment of the 6.5 percent notes, we unwound our existing interest rate swaps and entered into new U.S. zero interest rate swaps, resulting in an effective interest rate for the new senior notes of 3.63 percent.

In summary, our fourth quarter featured continued strong operating performance. Our teams have executed efficiently, ensuring customer needs are met and maintaining a safe working environment. The investments and improvements made in our business are driving growth, resiliency, and margin expansion. The addition of CFT provides us with an exciting platform in the food technology space, and the coming addition of BioDot will provide us with new capabilities in life sciences. We have a

record order backlog, strong balance sheet, and available liquidity that combine to provide ATS 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

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

Cherilyn Radbourne – Analyst, TD Securities

Thanks very much and good morning. I wanted to ask about the nice growth in services and parts that we saw again this quarter. Could you touch on the extent to which you think pent-up demand is contributing if things open up, and if pent-up demand is contributing, how much more pent-up demand might there be out there?

Andrew Hider —

Yes, good morning Cherilyn. As we look at our services business, when we step back and look through the pandemic, a couple of things that we did to enable this business and the teams really aligned around first, we really focused on a regional service network, and when we look at that network, it enabled us to continue to support and really drive solutions and enable our customers to continue to build their product.

Secondly, we launched digital tools, and we did that to support our customers but additionally it's really enabled this regional network to execute. As an example, you think about the U.K. and when the U.K. went on lockdown, we had a regional network built within that region that allowed us to continue to support customers regardless of end market, and we could do that because we had subject matter experts and we have the digital tools that enable them to quickly understand how to fix and really enable the process and production of products. Overall I would say we did a nice job pivoting early in the pandemic to enable us to be where we are today, and why do I say all that? Because to answer your question, we certainly are in line with last quarter and we view that we're getting more and more back to normalized run for this business, and so we're pleased with the progress. We would view that we're in a normalized state. There's still challenges around travel and around ability to support, if needed. That said, with our regional support network, we've been able to really overcome a lot of the obstacles within this space.

Cherilyn Radbourne – Analyst, TD Securities

Okay, that's helpful, so you would say that this is more normalized state rather than a catch-up or pent-up demand? Is that fair?

Andrew Hider —

Yes. To answer your question directly, yes, this is a more normalized state.

Cherilyn Radbourne – Analyst, TD Securities

Perfect. Then maybe you could elaborate a little more on the activity in life sciences and the extent to which customer focus is starting to pivot away from COVID and back to projects that might have been temporarily put on hold due to the pandemic.

Andrew Hider —

Yes, so I did mention this in my opening remarks, we are seeing our funnel increase on non-COVID related, more elective surgery type of applications, and so we're really pleased with that as far as how things are starting to progress in our funnel.

To start with the headline, very solid bookings for the quarter, record bookings for the quarter and, as I mentioned, a healthy funnel as we go into the year, so headline, very pleased with the performance and how we're setting up for the year, but as you look at life sciences, we're starting to see those elective surgery opportunities take shape in our funnel, but additionally we're pleased with the ability to execute on these COVID-19 opportunities. We're here for our customers, regardless of COVID or non-COVID opportunities and we've won new customers through this, and so we've taken new technology and new innovations, like our Symphoni product line which was a development from Transformix, to really enable us to execute and build out our capability on these new and existing customers, to then allow us to continue our expansion within those businesses.

Cherilyn Radbourne – Analyst, TD Securities

Great, that's my two. Thank you.

Andrew Hider —

Thank you.

Operator

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

Mark Neville – Analyst, Scotiabank

Hey, good morning, guys. Great quarter. Maybe just on the bookings, there's clearly been a step change here, I'm just trying to understand it. Andrew, maybe just qualitatively, if you can just help with how much is just generally stronger markets versus what you're doing internally in terms of improved processes on the frontend or the service offering. Again, any commentary would be helpful.

Andrew Hider —

Yes, so to answer your question directly, it's a bit of both, Mark. To walk through that, we've won new customers through this and we're really pleased with those wins in that it allows us to then expand our footprint; but additionally, we've also expanded within businesses, and I used the example a little bit ago around the Symphoni product line. That has enabled us to do things differently and offer new solutions to customers that we've been supporting for a decade, and so ultimately really pleased with the progress. But let me get more specific on the markets, and I talked a bit about life sciences and the continued activity and strong performance within the market. We're seeing not only from a standpoint of the COVID-19, but we're also seeing our funnel increase in non-COVID related opportunities as well. In EV, we're seeing the activity pick up in both North America and Europe and we've booked a large EV award in the quarter, and so pleased with that progress.

We're also staying very close with this new administration in the U.S. around the stricter environmental emissions rules and laws, and so really, call it thinking about them as an adoption from EV as the shift continues and being very close to it. We are a leader in battery pack assembly, and it's one we want to continue to really help our customers as they navigate this new market and new opportunity.

In consumer, this is a mixed bag for us, and we've seen strength in warehouse automation. We're a niche application there but we've seen strength, while also food has showed our ability to execute.

Cosmetics is soft and has remained soft. When you think about cosmetics for us, really, you think about duty free shops, and duty free shops have been impacted by this and so we do see that market coming back over time, but that has been a little bit on the softer end.

Then in energy, we see opportunities in refurbishments and decommissioning, and I talked about decommissioning on the last call and the opportunity that it has for ATS, but we are seeing opportunities both in Canada and globally, and we're going to continue to build out our capability and we continue to build out our team.

Lastly, I'll just talk about the ABM and how the team across ATS has shifted to what we call our commercial ABM. It's around driving our aspect of demand generation, marketing tools, enabling our customers to understand all our capabilities and then aligning that with our sales force effectiveness. The team is doing an excellent job of pivoting during this environment to really maximize those opportunities, and so in answer to your question up front around it's a bit of both, but it is, and then you get into the markets, you can really start to understand how our strategy is taking shape with new

technologies, new innovations, marrying with the needs of customers and our continued drive to re-satisfy those needs.

Mark Neville – Analyst, Scotiabank

That's great, Andrew. That's super helpful and encouraging, obviously. Maybe for Ryan, just on the backlog conversion for the quarter, does CFT make the business a structurally higher number so that 40 percent is a more normal number going forward, or is it just a matter of timing and mix for the quarter?

Ryan McLeod —

Well, at this point, it's timing and mix for the quarter, and this is something that we look at every quarter and determine where we expect to be, based on our portfolio and what we have in backlog and what we expect to book in revenue within the quarter. At this point, I would say it remains to be seen whether CFT will drive change in this metric, but we'll continue to look at this and assess every quarter.

Mark Neville – Analyst, Scotiabank

Great, thanks, guys. I'll get back in queue.

Operator

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

Justin Keywood – Analyst, Stifel

Good morning, thanks for taking my call, and nice to see the results. On the notable EV battery award, are you able to provide some more context on the value of the contract, if this is an existing or new customer, and any opportunities for follow-on work?

Ryan McLeod —

I can't provide a lot more colour. I'll say it was a large program. It's a customer that we have worked with previously and it's somebody that we do expect to have an ongoing relationship with. It's a longstanding relationship and a very good customer.

Andrew Hider —.

Justin, just to add on to Ryan's comment, we do see additional potential with this customer, but as you're well aware and we often say, we need to execute and prove out the value that we bring to this customer.

Justin Keywood – Analyst, Stifel

Okay, understood. Then for merchant expansion initiatives, I'm just wondering if you have an update on the broader goals, like the 500 BPs over five years was on track, and now there's a few moving parts with the CFT contributing and perhaps more aftermarket services work coming back, but just as an update, if you have any broad margin expansion goals over the next few years and beyond.

Ryan McLeod —

Well, our goal is unchanged for the core business, so we are still targeting that 500 basis points. With the addition of CFT, they're going to be a part of that too. To your point, it'll change the timing but doesn't change the end goal. If I just go back on the core business, we're largely, call it halfway there, so we finished the quarter at about 12.4 percent. Over the last three quarters of the fiscal year, we operated at 12.1 percent, so we have had a good level of margin expansion in the year when I exclude Q1, which was heavily impacted by COVID and the initial lockdown. Our plans haven't changed. We're focused on the different initiatives that we're pursuing throughout the business. We're driving continuous improvement through ABM. Our supply chain management, we made really good progress on this initiative and it continues to contribute, and it will be a big part of margin expansion with CFT.

Standardization, this is an area that we have been a little bit further behind on but is really starting to take shape, and Andrew talked about some of the kaizen activity and initiatives that we're pursuing on standardization, and then you mentioned after sales services, and we did see a continuation of strength in that business this quarter, and then of course operating leverage, and we expect to continue to grow the business and drive operating leverage.

Like I said, timing will be a little bit more variable with CFT from a total portfolio basis, but the objective for the core business does not change.

Justin Keywood – Analyst, Stifel

That's adjusted operating margins you're referring to?

Ryan McLeod —

Yes, correct.

Justin Keywood – Analyst, Stifel

Okay, and …

Ryan McLeod —

Sorry, go ahead, Justin.

Justin Keywood – Analyst, Stifel

No, go ahead. That’s fine.

Ryan McLeod —

I was just going to remind you, when we started this, we were just under 10 percent, so in Fiscal '17 we finished at 9.6 percent, and like I said, we finished Q4 at 12.4 percent, so call it we're halfway towards the objective.

Justin Keywood – Analyst, Stifel

Okay, that's helpful. Ryan, I didn't get in your opening remarks the expected CapEx for the remainder of this year or next year.

Ryan McLeod —

It's $50 million to $60 million.

Justin Keywood – Analyst, Stifel

That's 5-0 to 60?

Ryan McLeod —

Yes, correct.

Justin Keywood – Analyst, Stifel

Okay, and any particular initiatives that's driving that, because that's historically a little higher than what's been in the past.

Ryan McLeod —

Well, that doesn't incorporate the new businesses, so we have a higher base in terms of ongoing maintenance spend than what we've had in the past, and we are investing in a couple of areas that will be enabling continued growth so we do have some capacity expansion in certain areas. We're going to continue to invest in innovation, and then like I said, the regular ongoing maintenance type activity. Overall, long term, we're going to continue to operate in that 2 percent to 3 percent range of revenues, and so it will be more on the higher end in this upcoming year.

Justin Keywood – Analyst, Stifel

Okay, understood. Thank you for taking my questions.

Ryan McLeod —

You're welcome.

Operator

Your next question comes from David Ocampo from Cormark Securities. Your line is open.

David Ocampo – Analyst, Cormark Securities

Good morning, everyone. I just wanted to circle in on Justin's last question on the margins and focus more on the near term opportunity there. I think on the last quarter, you talked about pressure from COVID related costs. Are you starting to see that recede now, or have you largely worked that through your system now?

Ryan McLeod —

Well, a lot of the factors that have impacted us are still in place, so where we operate around the world, we're still operating with what I would call non-normal or additional health and safety protocols in our facilities. We still have a large percentage of our workforce at home, so we have people coming into our facilities every day but we also have our engineering and office staff largely working from home, so those conditions still exist.

We've also talked about the impact on services and travel restrictions and the complications with people having to quarantine if they're going into a market or coming back home to a market, so all of those conditions still exist, but what I would say is we've done a good job overcoming these obstacles. From the services perspective, we talked about our global footprint, our regional network, the digital

tools implemented, and then within our facilities, our teams have done an excellent job in keeping our facilities safe and keeping them open and adhering to the health and safety protocols, so the conditions still exist, but from an impact, we're mitigating from a margin perspective.

David Ocampo – Analyst, Cormark Securities

Okay, and then on the M&A pipeline that you guys have in terms of the funnel, it's picked up quite a bit here. Are you starting to see more competition through this space, and is that having any impact on the multiples that you have to bid in order to acquire these businesses?

Andrew Hider —

Why don't I walk this a little bit. We announced the acquisition of BioDot and CFT, the closure of CFT. I'm really pleased with those new adds, very much in line with our strategic direction and really in line with where we're taking the corporation. When we step back and look at our funnel, our funnel remains healthy and I would actually state that it's opened up more from the food technology space, and we like regulated food, we like the food technology area, and so we've really built that out, so I would say, it's increased, and we remain active in the market around cultivation, around staying close with many targets.

We've entered into many discussions where we don't get to the finish line because we choose to go in a different direction, and we have four criteria that you've seen multiple times, and if those four really don't line up, we then go in a different direction. But I'll just state that our funnel remains healthy, we continue to cultivate, and sure, multiples are an area of focus and target and we see multiples

remaining at a certain peak, at a certain level. That said, I think we've continued and will continue to manage to overcome those and really build out a strong value creation for ATS and for our shareholders.

David Ocampo – Analyst, Cormark Securities

I'm sorry, Andrew, are you starting to see more competition for the stuff that you're bidding on, or it's largely unchanged?

Andrew Hider —

It's largely unchanged. What I can say is our cultivation efforts have picked up and continue to pick up, and that really does enable us to move and be in a pace, but it's largely unchanged.

David Ocampo – Analyst, Cormark Securities

Okay, that's my questions. Thank you so much.

Andrew Hider —

Thanks.

Operator

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

Maxim Sytchev – Analyst, National Bank Financial

Hi, good morning.

Andrew Hider —

Max, good morning.

Maxim Sytchev – Analyst, National Bank Financial

Andrew, I was wondering, if you don't mind, maybe talking about the CFT integration blueprint, maybe any early learnings from having on-boarded this asset and how you think about any updates on the cost synergy, revenue synergy, just—yes, any update on acquisitions that's possible. Thanks.

Andrew Hider —

Absolutely. I'll start with the headline here, Max, then I'll go into specifics. We are on track with the integration. We are confirming and have confirmed our belief around the synergies and around the cost potential and where we believe we can deliver on, and so none of that has changed.

Then to walk through it, we closed in March and our team started the integration immediately around that, and they've done a lot of work around firming up the supply chain synergies and really exploring and continuing to explore the synergy and cross-selling synergies with this group. I'm pleased to say we've even started quoting now, and one of the products that this business and technology—this business has is something called CFT Robotics and we've quoted that out in other areas of our business, and so we're realizing and we're very pleased with the projects and prospects around the synergies, and

we're on track to realize those. I would just say the headline is pleased with the progress and certainly view this business as a real strategic fit for ATS.

Maxim Sytchev – Analyst, National Bank Financial

Great, and so far no negative surprises in terms of having to look under the hood, or maybe any positive surprises, maybe if it's possible to share?

Andrew Hider —

Yes, so with every acquisition, you're going to find things as you go along, and what I can say is that they're not meaningful at this time. What we're really pleased with is the business and the team at CFT have been fantastic in the approach, and so we're really pleased with how this is unfolding. We're really pleased with the integration, and we're not changing the targets as of yet, but I'll just say that what we set out to achieve, we're very confident we can achieve.

Maxim Sytchev – Analyst, National Bank Financial

Okay, that's super helpful. Thank you so much. Maybe just one clean-up question for Ryan. In terms of the backlog to revenue conversion for the upcoming quarter, I presume that BioDot is not included in that, correct?

Ryan McLeod —

Yes, that's correct. We do expect BioDot to close this quarter, but given where we are now, it'll be in the latter half of the quarter, so it won't have a material impact.

Maxim Sytchev – Analyst, National Bank Financial

Okay, that's great. That's it for me. Thank you so much.

Operator

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

Mark Neville – Analyst, Scotiabank

Hey guys, thanks for taking the follow-ups. I'm just curious, have you seen any impact on your business or on your customers' behavior just from the recent commodity price inflation?

Andrew Hider —

From the standpoint of our customers, no, we have not. I gave the headline, but our funnel is healthy as we go into the year, so pleased with that. As we look at our business and then step back, the short answer is we have not seen really anything material to date, but our supply chain and our supply chain team has been very focused and very vigilant about this. As you recall, and we've talked about this as one of our five points, the team has been very proactive in identification with suppliers and identification of the roadmap and strategic layout and how we want to drive the business here, so they've been able to really minimize and be able to allow me to state, this is no material.

Where we have seen a shift though is some suppliers are extending their lead times, so where we've had stuff in days now goes out to potentially weeks and we've seen stuff shift from, call it, one to three days to three weeks. Fortunately, we were able to identify this early on and because of our

planning, we've been able to plan and ensure that there's no impact in our ability to execute, and so to date, no real material impact. Another one, just to head it off, is around the shortage in chips in the EV side, or the automotive and transportation. We have not seen a disruption in our portion of that, and just to, call it remind the team here on this, we are in a strategic area of focus for our customers and we have not seen any impact on our business. When we look strategically with the customers, it's aligned with how they have to shift their business to meeting the needs in the market.

Mark Neville – Analyst, Scotiabank

Okay. Sorry, just to clarify on the chips, Andrew, again, you haven't seen any impact and nothing's showing up in this quarter either, the current quarter?

Andrew Hider —

Correct.

Mark Neville – Analyst, Scotiabank

Right, okay. Broadly around infrastructure stimulus, whether U.S. or other markets, I'm just curious, do you think that potentially is a tailwind for the business?

Andrew Hider —

We do. To answer your question, we do, and let me walk through this a little bit.

We call it on-shoring or supply chain de-risking in all these areas, and typically that is going to be an enabler for automation. If you step back and look at the ability to meet the demand, usually it's going to equate to an automation area, and so we do view that as a tailwind. As you're well aware, part of my standard work as a CEO is to continue to talk to customers and, call it of the last—and I mentioned this on a call, call it a quarter or two ago, of the last 10 customers, especially in life sciences, half of them are talking and we've seen awards or orders in a small amount, but still orders in preparing for this shift.

Mark, one of the other areas that is a tailwind for automation, and it's not getting as much highlight right now but it is a meaningful change, is the retirement in the next three to five years, and when we look at retirement and the younger workforce coming in, automation is an enabler to really continue the continuity of production process because at the end, what our customers care about is building a quality product on time, on budget, on target consistently, and so they're really reaching out to us to say, we've got a changing shift here, so not only do we need to meet the demand in our region but we also have a potential retirement aspect coming up and therefore we need to talk through the aspects of how do we automate and meet these heavily regulated markets that allow us to produce the product.

We do view this as a tailwind. Timing is, call it, 18 to 36 months out, so I would say it's early in the assessment and dialogue, but it is it is a shift that we view does favour greater automation.

Mark Neville – Analyst, Scotiabank

Great. Maybe just one last question, just on M&A, just to clarify. Again with CFT, you're starting the integration or you're doing the integration. BioDot's expected to close this quarter, but neither of those would preclude you from doing anything else in terms of M&A, correct?

Andrew Hider —

Correct.

Mark Neville – Analyst, Scotiabank

Okay. All right, guys, thanks again and keep it up.

Operator

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

Andrew Hider —

Thanks, Operator.

To conclude, we're pleased with the performance this quarter and recognize the hard work and dedication of our teams across ATS that made this possible. This past year has turned out to be very different from what many of us have imagined, yet despite the challenges, our people were able to adapt and deliver innovative, high quality solutions for our customers, solutions that positively impacted lives around the world.

Thank you for joining us today. I look forward to speaking to you on our Q1 call in August. Stay safe, and goodbye for now.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.