19-May-2022

ATS Automation Tooling Systems, Inc.

(ATA.CA)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen. Welcome to the ATS Automation Fourth Quarter Conference Call and Webcast. This call is being recorded today, May 19, 2022, at 8:30 AM Eastern Time. Following the presentation, we will conduct a question-and-answer session, and instructions will be provided at that time for you on how to queue up. [Operator Instructions]

I would now turn the call over to Mr. David Galison, Head of Investor Relations at ATS. Please go ahead, sir.

David Galison
Head-Investor Relations, ATS Automation Tooling Systems, Inc.

Thank you, operator, and good morning, everyone. On the call today are Andrew Hider, Chief Executive Officer of ATS, and Ryan McLeod, Chief Financial Officer. Please note that our remarks today are accompanied by a slide deck, which can be viewed via our webcast and available at atsautomation.com.

We caution that the statements made on our webcast and conference call may contain forward-looking information, and our cautionary statement regarding such information, including the material factors that could cause actual results to differ materially from the statements and the material factors or assumptions applied in making the statements, are detailed on slide 2 of the slide deck.

Now, it's my pleasure to hand over the call to Andrew.

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

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Thank you, David. Good morning, ladies and gentlemen, and thank you for joining us. We're pleased to report another quarter of profitable growth for ATS, featuring record revenues, strong order bookings and order backlog, and continued adjusted EBIT margin expansion. Despite challenges in the global business environment, the year as a whole saw ATS produce double-digit organic revenue growth while achieving on-target contributions from newly acquired businesses. All this reflected good execution of the ABM playbook by dedicated and resilient ATS teams worldwide. As part of our Expand Strategy, integration activities with all our recent acquisitions continued in Q4 and we completed the acquisition of HSG. Today, I will update you on our business and then Ryan will provide his financial report.

Starting with our financial value drivers, Q4 revenues were a record CAD 603 million, up 51% from Q4 last year, driven by a combination of acquired businesses and continued strength across our core operations. Organically, revenues grew 11% year-over-year. For the full year, total revenues were up 53%, including 20% from organic growth. Q4 order bookings were CAD 638 million, up 38% year-over-year. Bookings were strong across most market verticals in Q4 and featured key wins within life sciences, consumer, transportation and food. For the full year, bookings are up by 51%, driven by acquired businesses. Our adjusted EBIT margin for the quarter was 14.2%, representing margin expansion of 183 basis points from Q4 last year with strong sequential and full year margin expansion as well.

Moving to our outlook, we finished with a CAD 1.4 billion order backlog that includes several large enterprise programs that have longer durations. Our backlog is distributed across diversified and regulated industries, where quality and reliability are mandatory. The size and the composition of backlog provides us with a solid base of business as we head into a new fiscal year.

By market, conditions remain generally positive in life sciences, with good activity level in our key sectors of medical devices, pharma and radiopharma. Life sciences represented more than 50% of our ending backlog, and we expect it to remain a key vertical for ATS.

In EV, we remain bullish as the OEMs accelerate their investment plans. We received several additional orders for battery assembly systems during the quarter. Our experience and successful track record position us well as new complexities arrive from evolving battery technologies.

In food and beverage, we continue to see orders across both processing and packaging. Key drivers include a strong tomato season, the demand for primary and secondary processing, and a need for automation and processing technology due to labor shortages, specifically in North America and Europe.

In consumer, we're seeing ongoing activity in warehouse automation as well as increased order intake from cosmetics customers during the quarter, a market which was particularly hit hard by pandemic-related effects.

In energy, there is ongoing interest in nuclear power and grid battery storage to support green energy initiatives, and we're focused on funnel development in these areas. And aftersales services, we have continued to expand our regional networks and we're now providing local support to some of the customers of our recent acquisitions such as SP, MARCO and CFT. This is a good start on our journey to increase value for acquired customers and share of wallet for ATS.

We are progressing in our digital journey to develop combined technologies and service solutions to meet our customer's challenges on the shop floor. By way of example, we recently helped a customer drive better value out of Illuminate, by analyzing their data to identify areas for immediate support, which drove a significant OEE improvement. In addition, based on knowledge generated from the data, we are now providing ongoing support to

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the customer through health checks, upgrades and a service level agreement, with future potential to expand other equipment and higher value services.

Next, I would like to address some of the macro issues facing the markets. In Ukraine, ATS is a small operation that serves as an internal supplier, with 70 valued employees. We are maintaining regular contact and supporting our team, and we have made a donation to the Red Cross. Our donation is being used to fund mobile health teams, families displaced by the war and emergency basic needs. Our thoughts are with those affected by this tragic situation.

Relative to the pandemic, in many geographies, we've seen restrictions that were implemented in the early days of the pandemic lifted or reduced, but the situation remains fluid. We are working with our customers and employees to monitor the situation and address the challenges. Despite the difficulties and Q4 absenteeism in some geographies, our teams maintain their focus on delivering world-class performance for our customers.

Inflation, supply chain, constraints, and competition for talent represent ongoing challenges. The situation remains dynamic for ATS and for our customers. To the effort of our teams and the deployment of our ABM, to-date, we've had a good level of success in mitigating some of these challenges. However, we're not immune. That said, ATS is ideally positioned to assist our global customers with automation solutions that will strengthen their global supply chains and reduce both production costs and labor dependence.

To summarize our outlook, this quarter included strong order bookings, order backlog and a solid opportunity funnel. We remain encouraged by recent activity levels, while at the same time recognizing that this is a complex and volatile business environment with heightened risks to order intake, timing and operational execution. Our teams remain focused on problem solving efforts to identify effective countermeasures to mitigate the effects with special ongoing attention to supply chain assisted, as always, by our continuous improvement playbook, our ABM.

Moving to ABM highlights. During the quarter, we held our annual weeklong set of President's Kaizen, attended by our senior business leaders and employees from across the organization. This year, the President's Kaizen focused on both front-end sales and operational execution improvements. Two events focused on responding to supply chain challenges and one on engineering efficiency. The remaining three events targeted value selling, capture rate improvement, and finally optimizing sales processes across three acquired businesses, Comecer, SP, and DF.

Our EV team held a joint Kaizen workshop with General Motors to enhance machine throughput and support customer growth. Many SP team members participated in their first virtual boot camp where they learned and applied ABM fundamentals. As a result, 10 problem-solving and Kaizen Events were planned at SP for April and May as we roll out our ABM playbook. We will continue to employ our global ABM boot camps in fiscal 2023. We are proud of the ongoing demand for and commitment to these boot camps.

On M&A, acquisitions and strategic markets are an important complement to ATS' organic growth, market penetration and customer capabilities. During the fourth quarter, we completed the acquisition of HSG Engineering. HSG is an industrial automation integrator primarily serving the pharmaceutical sector. HSG joined ATS's PA business to deepen its domain knowledge in the biopharma and pharmaceutical sectors and strengthened PA's regional presence in Italy. With a strong balance sheet, ATS will cultivate and evaluate acquisition opportunities consistent with our proven strategy. Naturally, the timing of acquisitions will be variable and our approach to deploying our balance sheet will be disciplined and strategic.

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Of note, we continued to make progress integrating our acquired businesses. There's a strong collaboration as we explore opportunities to grow our support and integrate service activities. Across ATS, our innovation activities are an ongoing part of our Expand Strategy. Globally, the team made a solid progress in a number of areas. Our SuperTrak team continued to build the CONVEYANCE portfolio to enhance SuperTrak's potential in the life sciences and pharma industries.

At our ATS Innovation Center in Cambridge, the team maintained its research collaboration with the University of Waterloo. In addition, the team developed new applications using the Symphoni platform, including a system for syringe production.

BioDot has developed new techniques for forming [indiscernible] (00:13:01), based on the BioDot dispensing technology, which may open up synergies with SP, although this is still in the early stages. Comecer continues to innovate and build on its strong portfolio of technology used in the production of a new radioisotope that is showing strong potential as a breakthrough in radiopharmaceutical cancer treatment.

Our EV team remained focused on development of its battery assembly platform with innovations that increase throughput and yield through the early identification of defective battery cells in the assembly process.

In summary, we are pleased with the results of the quarter and fiscal year as they demonstrate the strength and growth of our portfolio and offerings and the resiliency of our global teams. Our commitment to providing best-in-class solutions to our customers is evident in strong order bookings and robust order backlog.

Our strong leadership team remains focused in our dedication to our employees, our customers and creating value for our shareholders. Our global teams did an excellent job in what was a very challenging environment, delivering strong results in fiscal 2022. I am thankful for and proud of their efforts and continued commitment.

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

Ryan McLeod

Chief Financial Officer, ATS Automation Tooling Systems, Inc.

Thank you, Andrew, and good morning, ladies and gentlemen. I'll start with an overview of our Q4 operating results, and then I'll provide color on our balance sheet. Starting with orders, bookings were CAD 638 million, up 38% compared to Q4 last year. Growth was driven by acquired companies, primarily CFT contributing CAD 81 million, and SP adding CAD 66 million. Organic growth in bookings was 1%, offset by a 3% headwind from foreign exchange translation.

For the year, bookings of CAD 2.5 billion were up CAD 830 million due to increases in life sciences and food. Of this 51% increase, organic growth was 21%, while acquired companies drove 34% growth. Foreign exchange translation had a negative 4% impact. Our book-to-bill ratio for fiscal 2022 is 1.13 to 1, positioning us well for continued organic revenue growth.

Moving to revenues, our top line grew 51% in Q4 over the prior year. Our organic growth of 10.5% related primarily to growth within the life sciences and transportation verticals. Foreign exchange translation created a 3% headwind compared to Q4 last year. Acquired companies added 43% of revenue growth with CFT and SP the primary contributors.

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For the year, revenues were CAD 2.2 billion, an increase of 53% from the prior year. Revenues from acquired companies contributed 37% overall growth, while organic growth was 20%. This was offset by a foreign exchange translation impact of 4% for the year.

As expected, with the addition of SP, our revenue mix shifted to a higher weighting on product sales and shorter cycle original equipment, which provides a good balance to our longer duration project-based revenues. Our Q4 revenue mix was 59% from construction projects, 18% from product sales, and 23% from services. In Q4 of last year, this mix was 65% from construction sales, 8% from product sales and 27% from after sales services. We continue to focus on growing our after sales service business with Q4 after sales service revenues growing 14% sequentially and 68% year-over-year, including 21% organic growth compared to last year. Our Q4 ending backlog of CAD 1.4 billion was 24% higher than Q4 last year.

Looking forward, our revenue conversion for Q1 is estimated to be in the lower end of 40% to 45% range of order backlog. Of note, this is an increase to our prior quarter range of 35% to 40% and reflects the change in mix of our business. As a reminder, this estimate is based on revenue expectations for both the execution of projects from backlog and work that will be booked and build within the quarter.

Moving to margins, included in the Q4 gross margin were CAD 5.2 million of costs related to the fair value adjustment of inventories acquired through acquisition. Excluding this adjustment, Q4's adjusted gross margin was 29.6%, 180 basis points higher than the comparable period a year ago. Higher gross margin reflected operating efficiencies from strong project execution, improvements in the cost structure of our core business through previous reorganizations, increased after-sales service revenues, and other continuous improvement efforts achieved by deploying our ABM.

To date, cost increases and lead time extensions in our supply base have not had a material impact on our profitability. In our systems integration businesses, we've been largely able to mitigate the impacts. In our product and original equipment businesses, we have seen some impact on margins from rising costs of certain commodities and components. Cost increases, notably for lead, aluminum, and stainless steel, continue to affect direct raw material purchases and add inflationary cost pressure on derivative component supply. Electrical components are still the primary category impacted on lead times.

From a risk mitigation perspective, we have a diversified supply base with our top 10 suppliers accounting for less than 15% of our total external spend. No supplier represents more than 3.5% of our total spend. We continue to monitor the supply chain with concerted efforts made by our team to identify and implement countermeasures, including embedding secured supplier costs into new quotes, accelerating order timing, securing alternative sources of supply and implementing pricing changes.

Our ABM has served us well to date as we navigate and continue to address these pressures which we anticipate will continue through fiscal 2023. ABM efforts, combined with our strong backlog, have served us well in managing our risk exposure. Going forward, we are focused on continuing to implement countermeasures to help offset these pressures in our business.

Moving to SG&A, expenses were CAD 49.2 million higher than Q4 last year. This year's cost included CAD 19.2 million of acquisition-related amortization, CAD 1.4 million of acquisition-related transaction costs, and CAD 1.9 million of restructuring costs, mainly related to ongoing cost rationalization in acquired businesses. These costs were partially offset by a CAD 1.7 million favorable adjustment in respect of acquisition-related contingent consideration.

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Excluding comparable items in both periods, Q4's SG&A was CAD 91.8 million, CAD 37 million higher than last year, reflecting incremental SG&A cost from acquired companies, primarily CFT, BioDot and SP. Fourth quarter stock compensation expense was CAD 800,000, down CAD 11.9 million from Q3 and down CAD 6 million from last year. The decrease in stock-based compensation costs, as a result of lower expenses from the revaluation of deferred and restricted share units.

Q4 adjusted earnings from operations were CAD 85.8 million or 14.2%, compared to CAD 49.5 million or 12.4% last year. The increase reflected improved gross margin and lower stock compensation expense, partially offset by higher SG&A expenses. Excluding acquisitions, our core business operated with a 16.8% adjusted earnings from operations margin. Adjusted earnings margins from our acquired businesses were 7.7% in Q4 compared to 7.4% in Q3. For the year, our core business achieved a 15% adjusted earnings from operations margin. We are pleased with this performance and are focused on continuing to expand our margins in both our core and acquired businesses. In the short term, challenges in supply chain continue to pressure or countermeasures.

Moving to the balance sheet. In Q4, cash flows from operating activities were CAD 30 million, CAD 8.9 million lower than last year. This primarily related to the timing of investments in non-cash working capital in certain customer programs. In fiscal 2022, we generated cash from operations of CAD 216 million, up from CAD 185 million last year, reflecting growth and improved profitability, partially offset by increased investment in non-cash working capital.

Our non-cash working capital as a percentage of revenues was 8.2% in Q4, up from 6.3% in Q3 and 6.2% in Q4 last year. We invested CAD 16.3 million in CapEx and intangible assets in Q4, compared to CAD 13 million in Q4 last year, higher investments primarily related to growth in our business.

In fiscal 2022, total CapEx in investment was CAD 53 million. We expect to increase our CapEx in fiscal 2023 in order to support growth through additional capacity and investments in innovation. Overall, our CapEx budget for fiscal 2023 is expected to be in the range of CAD 90 million to CAD 110 million.

On leverage, our year end net debt to adjusted EBITDA ratio is 2.8 to 1. On a pro forma basis, including the trailing 12-month EBITDA contributions of acquired businesses, our net debt to adjusted EBITDA ratio was approximately 2.6 to 1. We ended the quarter with CAD 135 million of cash and availability on our credit facilities of CAD 229 million. Going forward, we're focused on maintaining our strong balance sheet while simultaneously supporting flexibility in our financing structure to continue pursuing our growth strategies.

In summary, we're pleased with another quarter of good results, including record quarterly revenues, strong bookings and backlog, and margin expansion. These achievements reflect organic growth, contributions from our newly acquired businesses, and the ongoing deployment of our ABM playbook. Our global teams persevered in the face of adverse business conditions, allowing ATS to deliver best-in-class solutions to our customers and strong financial results.

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

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QUESTION AND ANSWER SECTION

Operator: Thank you, sir. Ladies and gentlemen, we will now conduct the question-and-answer session. [Operator Instructions] Your questions will be polled in the order they are received. [Operator Instructions] One moment, please, for your first question. Your first question comes from David Ocampo, Cormark Securities. Please go ahead.

David Ocampo
Analyst, Cormark Securities, Inc.

Q

Thanks. Good morning, everyone.

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

A

Good morning.

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

A

Good Morning, David.

David Ocampo
Analyst, Cormark Securities, Inc.

Q

Ryan, you touched a little bit about the – getting some pricing relief from some of your customers and being able to pass it through. But I wanted to drill a little bit more on the enterprise contracts since those are a little bit more longer dated. I'm just curious, how much flexibility on the pricing is there, if inflation or your wages for your employees shoots up 10%? Are you guys able to pass that off immediately or does ATS have to find other ways to mitigate it, like the measures that you guys were talking about in terms of sourcing from different suppliers and what have you?

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

A

Yes. So, first of all, whether it's an enterprise program or a regular shorter-duration construction contract, when we're doing custom work, we are – we're [ph] going out (00:26:10) and quoting our supply chain in both cases. And typically, it's going to be in the 60% to 80%. We're not quoting 100% of our supply chain, but certainly, the key components and the majority of our third-party materials. And that's where we get some price protection on cost increases from our supply base. And so, if there's a sudden price increase in a component we didn't source, that's when we're going to look at alternative levers like utilizing alternative sources of supply. We might change design for certain components. So, those are some of the measures that we've used and continue to use. In terms of people and other costs, we do factor in our expectation for wage increases and that's part of our normal process in quoting as well.

David Ocampo
Analyst, Cormark Securities, Inc.

Q

No, that makes a lot of sense. And then, Andrew, maybe one for you, and we've always talked about capital deployment and how your M&A pipeline is quite flush here. But just given kind of the relative valuation on where

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ATS is trading today and maybe where the expectations are for some of your targeted companies, has your thought process changed on capital deployment? Can we expect more to be done on NCIB? I know a little bit of shares got picked up there, but how should we be thinking about that going forward?

Andrew Hider A
Chief Executive Officer & Director, ATS Automation Tooling Systems, Inc.

Yeah. So, good morning, David. If I step back and I'm going to state, first and foremost, we look at long-term shareholder value and our capital allocation plan. And we have a well-thought-through strategy wrapped around this. And I'm going to walk through the levers on this. So, first, and you picked up on it, the NCIB which, when we see an area of opportunity, we have the ability to pull that lever. And your comment, you've seen some of that uptick.

Number two, around M&A, when we look at the market, we continue to cultivate. And when we think about long-term value creation, we want to continue to cultivate. We want to continue to assess and identify companies that are going to be strategic for ATS. Our funnel remains healthy, and we've aligned around areas that we view are going to drive significant opportunities for both our customers and our shareholders. The only item here is if you look at the M&A market, it is down year-to-date, not my words. The banks that we pulse on this, down roughly 30%, but our cultivation efforts continue. And the reason is, at times, cultivation is going to take a year or two for the right asset, for the right targets. And so, we've continued to build out and continue to have a strong funnel.

David Ocampo Q
Analyst, Cormark Securities, Inc.

Okay. That's my two. I'll hop back in queue.

Andrew Hider A
Chief Executive Officer & Director, ATS Automation Tooling Systems, Inc.

Thank you.

Operator: Your next question comes from Mark Neville of Scotiabank. Please go ahead.

Mark Neville Q
Analyst, Scotia Capital, Inc.

Hey. Good morning, guys, a great quarter, great job. Maybe just quickly a follow-up first on David's question just from price, on these programs or on any program, do you have the ability to go back and sort of adjust price while the program is ongoing?

Andrew Hider A
Chief Executive Officer & Director, ATS Automation Tooling Systems, Inc.

In some contracts, we do have that ability. Those are rare occasions today and utilized more where we've got ongoing master agreements with customers, typically.

Mark Neville Q
Analyst, Scotia Capital, Inc.

Yeah. And maybe just on the margin, sort of longer term, the 15% target, I can't remember the number you quoted, but the legacy is close to 17%. When you think about the acquired businesses doing 7%, just big picture,

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when you think about these businesses longer term or what they should do, [ph] I think (00:30:13), should they look over time comparable to legacy or maybe even a bit better just given the mix?

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

So, let me – I'll try and answer your question. So, the core business did 16.8% in the quarter. There's a favorable stock comp benefit there, and we were at 15% for the year, and I think that's a better reflection given, if I look at the full year, where there's a lot of variability in our stock comp expense. For the full year, it was more normal. So, we're quite pleased with that. In terms of the acquired businesses, there's a mix. There's some that are accretive to those margins and then others that are dilutive, and CFT would be the one that I would call out, and we talked about it when we acquired the business. It was a low-single-digit margin business. We have a plan to increase those margins over time that we've laid out. We've made good progress. That's again a business that is more susceptible to the supply chain headwinds that, that are happening today, and that reflects their higher buy-on on raw materials and in components like that. But we're pleased with the progress we've made in terms of taking costs out of the business, putting in some operational efficiencies. That said, there's still ways to go with that business in terms of the overall performance.

Mark Neville Q
Analyst, Scotia Capital, Inc.

Got it. Maybe just on the CapEx budget for the year, Andrew or Ryan, whoever, can you maybe just talk about – I mean, it feels like a big number for you, guys. Obviously, you can – it's not an issue to fund it, but maybe just some of the things that you're doing this year that's sticking up where that money is going.

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

Yeah. So, it's – so, it is a larger number. And first of all, our total business has increased. So, the maintenance requirements are higher, not from a percentage standpoint. We're still in the 2 – low 2% range from a maintenance standpoint. But then, we also have a number of growth initiatives to add capacity in there. So, primarily adding floor space in some of our key core locations and those are areas where we have critical mass, critical footprint. But I've seen a good growth in our business and really a need to expand. We're also increasing spend on innovation, and we've talked about that for a number of years, and that continues to be an important part of our growth strategy. All that said, there is some flexibility in our plan. So, given business conditions, we will continue to monitor and adjust as needed.

Mark Neville Q
Analyst, Scotia Capital, Inc.

All right. I'll get back in queue. But again, great job.

Andrew Hider A
Chief Executive Officer & Director, ATS Automation Tooling Systems, Inc.

Thanks, Mark.

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

Thanks.

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Operator: [Operator Instructions] Your next question comes from Maxim Sytchev of National Bank Financial. Please go ahead.

Maxim Sytchev
Analyst, National Bank Financial, Inc.

Q

Hi. Good morning, gentlemen.

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

A

Good morning, Max.

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

A

Good morning, Max.

Maxim Sytchev
Analyst, National Bank Financial, Inc.

Q

A couple of questions, if I may. I think in the backlog sort of flowchart, there was a CAD 73 million adjustment. I just was curious if you can comment on that because some of that was in relation to M&A and some of that, scope changes, just in terms of how we should be thinking about that number? Thanks.

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

A

Yeah. And so, in the quarter, about two-thirds of that is FX-related and primarily in the euro, we saw that, that currency value decrease, and the balance, the other third would have been normal course scope changes and cancellations.

Maxim Sytchev
Analyst, National Bank Financial, Inc.

Q

Okay. So, yeah, quite small. Okay. That's super helpful. Thank you. And then, I was wondering, just in terms of, you mentioned electrical components. I was curious around the controllers and kind of how chip shortages are impacting the suppliers of your suppliers and how much visibility you have on these issues and how that's being managed, if it's possible to provide any color there?

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

A

Yeah. Sure, Max, and I'll walk through this, but – I want to walk through it so that you understand how we view it. So, if you look at our business, let's break it into two sections. There's the standard machines and oftentimes in standard machines, we'll have, where possible, multi-controllers or [ph] controller-agnostic (00:35:07). And we will at times, where we identify risk, build that into our process for engineering for design to ensure. At times, we don't have that, but it is more common in that area. Then you've got our custom machines and in general, you're going to find that you're going to have less optionality from a multi-controller perspective. But you're going to have options at times or within a supplier to have multiple options within that supplier. And so, we monitor this extremely close and if supplier has a component that's an A component and they're running into a shortage, we'll then look at an offset that says, maybe a B or a D and we have to design it in.

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And because we've got the engineering horsepower, we can do that. Alternative times will also because we know the global market reach out to a distribution channel and do a longer-term buy on those components that we view are going to need to have, call it, some protection. And so – and in the last case and at times and we've done this even recently, where we work with the customer on a [ph] change out (00:36:21).

And so, I would say we've managed this situation, we continue to be very focused on this. When we talk daily visual management, it is real, it is at every site, every location. And because of our buy and our continued buy, we've continued to mitigate that risk. And just for a reference point, we have a very diversified spend and no supplier makes up more than 3% of our spend. And so, while it is a challenge and suppliers do get hit, we've been able to offset and we continue to be very forward-looking in this, to ensure that we minimize the impact on our business.

Maxim Sytchev
Analyst, National Bank Financial, Inc.

Q

Yeah. Yeah, no, thank you, that's very helpful disclosure. And just in terms of the [ph] by (00:37:11) market outlook, was wondering how you think right now was as COVID is receding about organic growth rates on healthcare? And related/unrelated question around EVs and the potential growth dynamics in transportation. Just curious to see if we should anticipate an acceleration in the latter? Thanks.

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

A

Yeah. So, let me walk through that. And I'm going to start with EV because I mentioned it in my prepared remarks. We are bullish on this market, on this area, and we continue to see strong demand. As a matter of fact, even this week, I was meeting with a customer in this area where they view ATS as a very strategic supplier. And they're looking at not only our current technology, but ones we're working on from an innovation perspective to build that into their process. And so, we have deep relationships with the OEMs here. We continue to see opportunity. We are well positioned in the space to help them as they navigate the complexities and changes. And we continue to stay very close around that change. And if you think about not only the equipment but then the servicing capability, the complexity around if a battery changes, you have to be able to move at their pace. And ATS just does a fantastic job with value creation here.

If you then look at healthcare, look, this is a big piece of our business and one we view as a growth trajectory. And you mentioned COVID and certainly we did see a nice uptick from COVID during that time period. We largely pivoted back, and we are on our base business and we continue to support many of the areas. And I referenced, radiopharma, medical devices, pharmaceutical manufacturing and even with our new SP acquisition. We've seen even synergies with other businesses like Comecer and DF. And so, we view that as a market that's going to continue to support our aspirations and our growth trajectory.

Maxim Sytchev
Analyst, National Bank Financial, Inc.

Q

Okay. 100%. And then, just one last one for Ryan, in terms of because, again, like you're juggling all of these supply chain issues. Anything that we should be mindful of in terms of the non-cash working capital, if you're trying to maybe overcommit on the inventory side of things or, yeah, just any directionality there? Thanks.

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

A

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Yeah. So, we've made some investments in the inventory to secure product for, what I would call longer than normal lead times, but not really material from an inventory standpoint. What's going to drive our working capital is more on the project side in customer terms, commercial terms. And so, we did see a bit of an increase to just over 8% this quarter. I expect we'll continue to be in that range, we might end up in the 10% range in certain quarters, but it's generally going to continue to be in that area.

Maxim Sytchev Q
Analyst, National Bank Financial, Inc.

Okay. That's great. Thank you very much.

Operator: Your next question comes from Justin Keywood of Stifel. Please go ahead.

Justin Keywood Q
Analyst, Stifel GMP

Good morning. A nicely navigated quarter with a tough backdrop. My question has to do with geography and I'm wondering if you're seeing any softness in Europe as compared to other regions. And also, the revenue split in Europe by vertical, is that consistent with other regions? For example, would life sciences be 50% or perhaps even higher given that ATS serves pharma companies that may be based in Ireland?

Andrew Hider A
Chief Executive Officer & Director, ATS Automation Tooling Systems, Inc.

Good. Good morning, Justin. And, certainly, thank you for the comment. Look, I'll take the first part of it and then Ryan can jump in on the second. So, we continue to see opportunity in Europe across the board, and I have personally met with the customers here, and what I can state is our funnel remains healthy. We look at this as – yeah, I would characterize as cautiously optimistic. And the only area that I would say we have seen some impact, it is not material, but we have seen some impact is we do have customers in Russia that we do not have at this moment. And therefore, we have seen that impact, it is not material on our results, and therefore, it's not something we've outlined or highlighted.

Ryan, why don't you take the second piece of that.

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

Yeah. Well – so, just to put a fine point on Russia, it's less than 0.5% of our total revenue. So, the interest point is not material. In terms of vertical market, so it's – our food businesses is more weighted into Europe. The rest of the business is, I would say, fairly aligned with the geographic revenue split. Today, transportation would be a little bit more aligned into North America, life science likely as well. Consumer is going to be a bit of a mix and energy is more North American. So, food is really the one that's more heavily weighted in Europe today.

Justin Keywood Q
Analyst, Stifel GMP

Great. Thank you for the context. And then a follow-on question for the food and beverage segment. I'm wondering if ATS provides automation work for baby formula? And if this is an opportunity for ATS to help given the current baby formula shortage going on.

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Andrew Hider A
Chief Executive Officer & Director, ATS Automation Tooling Systems, Inc.

We would characterize that in what we call secondary processing and we are in this space. And I'm not going to get into all the areas we play in this area, but we do view this as an area that we can continue to grow into.

Justin Keywood Q
Analyst, Stifel GMP

And given the current shortage for baby formula, does this elevate the, perhaps, demand for a better quality control given the Abbott Labs facility that was shut down. And perhaps there could be some increased attention to higher quality manufacturing in the space.

Andrew Hider A
Chief Executive Officer & Director, ATS Automation Tooling Systems, Inc.

I'm just going to – I'm going to kind of step back and say this is one of the reasons why we like regulated food and why we like secondary processing, is you're going to have a heightened area of focus around ensuring that you meet the qualifications for the markets. And, Justin, just to give you some – and you know this – but to give you some insight as to when we view the food space, regulated food, this is one of the areas why we like this space is. It has similar characteristics as our life sciences where regulation, quality, dependency, these are – these matter to our customers. And so, while we're early in our journey with food at ATS, we are – we, with CFT, with Raytec, with MARCO, with other areas, we've made a nice progress here and we do view this is going to be an area of growth for our corporation.

Justin Keywood Q
Analyst, Stifel GMP

Understood. And thank you for taking my questions.

Andrew Hider A
Chief Executive Officer & Director, ATS Automation Tooling Systems, Inc.

Thank you.

Operator: Your next question comes from Cherilyn Radbourne of TD. Please go ahead.

Cherilyn Radbourne Q
Analyst, TD Securities, Inc.

Thanks very much, and good morning.

Andrew Hider A
Chief Executive Officer & Director, ATS Automation Tooling Systems, Inc.

Good morning, Cherilyn.

Cherilyn Radbourne Q
Analyst, TD Securities, Inc.

Andrew, my first question is for you. We know that you have ongoing dialogue with customers, so we're just hoping to tap into that a little bit. Could you just update us on the tone of those conversations as the quarter progressed and sort of macro uncertainty and inflationary pressures [ph] building (00:45:09)? Did you get a sense

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that they were starting to approach CapEx more cautiously as a consequence and/or have they started to look to ATS more for assistance with inflationary pressure?

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

A

Cherilyn, thank you for the question, and I'm going to get to this. But as you're well aware, we're 80% regulated, and that generally has – when we view it, the markets we serve today have longer tails on their growth. If I were to characterize my engagement with customers, I would say, in general, it's cautiously optimistic. More resilient markets, areas that when you think mid and long term, they've got labor shortage issues at times and automation can support and help that, as well as ATS has been very focused on continuing to expand our value to these customers, whether it be technology, whether it be helping them in their service and support, whether it be in getting their products to market at a faster pace. So, in general, I would say our communication has been solid. And just to recap the quarter, very strong bookings quarter, very strong backlog as you go into the New Year and, as I mentioned, a healthy funnel as we look at the core markets today.

Cherilyn Radbourne
Analyst, TD Securities, Inc.

Q

Great. And then maybe for Ryan. Just in terms of the organic growth in bookings this quarter, can you remind us of the size of the prior-year EV booking that you're lapping and maybe give us a bit more color on what you're seeing in nuclear and just how timing impact affected bookings in the quarter?

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

A

Yeah. So, I'll start and I'll let Andrew address the nuclear portion of the question. So, we had a couple of orders in Q4 last year that were in the CAD 50 million range, so a couple of significant ones. And we have those – that's not unusual. And this quarter we had a couple of quarters in the CAD 30 million range. Our organic growth in bookings was 1% this quarter. But we were always going to see normal course variability because of the size of some of these orders. And that's why – and I referenced our trailing 12-month book-to-bill in my prepared remarks. We tend to look at this on a longer term basis. Our organic growth rate in bookings for the year was 21%. And so, that's a very good number. That's going to be a tough one to beat going into next year. But something we're very proud of. So, we don't get – like I said, we don't get too focused on a singular quarter and we're pleased with the bookings. As Andrew talked about, we've got a very strong funnel and our backlog is very strong as we go into the next year.

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

A

And Cherilyn, I'll just walk through the nuclear side. And I met with a very important nuclear customer earlier in the week. And we continue to see – and I would characterize our focus here has been a niche focus. It's high value to our customers. We see continued potential expansion with our current customer base and with a renewed focus on nuclear [indiscernible] (00:48:42) avenue and areas that we can expand that on a global basis. And we often talk about decommissioning, we talk about other areas. But, as you see a shift from fossil fuels to this being an energy source, we do view additional opportunity here.

Cherilyn Radbourne
Analyst, TD Securities, Inc.

Q

And that's my cue. Thank you.

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Operator: [Operator Instructions] Your final question is a follow-up from Mark Neville of Scotiabank. Please go ahead.

Mark Neville
Analyst, Scotia Capital, Inc.

Q

Hey, guys. Thanks again. Maybe just on the sort of the backlog conversion guidance, is this more a function of the higher guidance for the quarter – more a function of sort of what's in the backlog or sort of the structural change in the business from all of the acquisitions over the past year or so?

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

A

Mark, it's both. So, we've added businesses that have more products, and the equipment is shorter cycle and we've also grown our services. And so, all of that changes the mix a little bit and helps push us into that 40% to 45%. Now that said, we do make this assessment every quarter and we look at our backlog and our expectations for how that's going to get revenued. And so, it really is a bit of both. But, over the longer term, I would expect, given the change in mix in our business that we'll generally be in that 40% to 45% range. That said, if we have a number of large projects come on and they're early stages, we could see that percentage decrease as well. So, the short answer is it's a bit of both.

Mark Neville
Analyst, Scotia Capital, Inc.

Q

Got it. And maybe moving over to the supply chain and, Andrew, I appreciate all the color and sort of how you're managing it. I appreciate it's sort of visual every day, every location. But is there also like a centralized supply chain team that's managing this sort of from the corporate level?

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

A

Yeah. So Mark, we have both a centralized supply chain team, which – by the way, this is – this has been something we've talked about for years, where this has been one of our five points of focus on our margin expansion plan was supply chain. Our supply chain leader has built a team out here and globally. And then, additionally, we had built out teams at the core location. And remember, these are individuals that our focus is they pay for [ph] their costs (00:51:38). So, not only did they perform; they've continued to expand and really drive the business.

So, short answer is, yes, we have both. And yes, we look at this from a macro perspective, i.e., global enterprise all of ATS, because we can bring at times that full breadth of our focus to our supply base or a shift of supply base. And so, our growth, really, is going to be helpful for us as we navigate these times.

Mark Neville
Analyst, Scotia Capital, Inc.

Q

Got it. If I can ask the last question is on M&A. Curious in a couple of things, I guess. First, just given the macro uncertainty, is more stuff popping up? I'm curious if sort of seller expectations have changed. And also curious sort of given sort of the macro uncertainty, sort of your appetite for sort of doing a deal or deals in this environment if it's changed at all. Thanks. Thanks for the comments.

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

A

So, what we've seen is we haven't seen a massive shift in seller, call it approach to the market. The deals – and I mentioned this earlier in the call, the deals have gone down in totality in their numbers, but we haven't seen a massive shift in expectations from sellers. And so, we are patient, we are focused, we are aligned with longer-term value creation for our shareholders, and we're going to keep that focus. And so, I view our position having a strong balance sheet, having a critical for, having markets that we view are resilient – excuse me, more resilient is really aligned around the journey that ATS has been on. So, while I do say that, it's a challenging environment, we're in a position to continue to build out our relationship and our funnel through this.

Mark Neville
Analyst, Scotia Capital, Inc.

Q

Got it. Thanks, Andrew. Thanks, Ryan.

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

A

Thank you, Mark.

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

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

Thank you, operator. We're pleased with the performance this quarter and appreciate the efforts put forth from our talented teams to make it possible. Look forward to the new fiscal year and the opportunity to continue to deliver on our plans. Thank you for joining us. I look forward to speaking to you on our Q1 call in August. Stay safe and goodbye for now.

Operator: Ladies and gentlemen, this does conclude your conference call for today. We would like to thank you for participating and ask that you please disconnect your lines.

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