ATS Corporation

Third Quarter 2023 Results Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the ATS Corporation Third Quarter Conference Call and Webcast. This call is being recorded on February 9, 2023 at 8:30 a.m. Eastern time. Following the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time for you to queue up for questions.

I'll now turn the call over to David Galison, Head of Investor Relations at ATS.

David Galison —

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

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

Andrew Hider —

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

ATS is proud to report another quarter of record bookings, backlog and revenues. Adjusted earnings were in line with our expectation and as anticipated, cash generation was strong as EV programs progressed.

Despite continued economic volatility, our performance in this environment demonstrates the strength of our strategy and market focus and an unwavering commitment to the ATS business model, which is at the core of everything we do. In the quarter, we announced two acquisitions, made further progress on current integrations and published our sustainability report.

We also completed a corporate name change and rebranded to reflect the evolution of ATS as a diversified technologically advanced organization, delivering solutions that positively impact lives around the world. Our new name ATS Corporation under the new trading symbol, ATS, better reflects the company we are today and creates consistency in our brand presence.

Today, I will update you on the business and Ryan will provide his financial report. Starting with our financial value drivers. Q3 revenues were $647 million up 18% from Q3 last year, driven by a combination of acquired businesses and continued strength across our core operations. Organic revenue growth was 10% year-over-year, reflecting good execution across our strategic markets.

Order bookings for the quarter of $979 million were another record, up 46% year-over-year, including $355 million of life sciences bookings and $392 million from transportation. Our Adjusted EBIT margin in Q3 was 12.5%.

Moving to our outlook. We finished the quarter with a record backlog of over $2.1 billion. Our backlog once again, provides us with a solid base to work from in key markets. Life Sciences backlog was $739 million. In the quarter, we drove strong organic bookings growth versus last year.

Our funnel has progressively strengthened throughout the year. We're also building our integrated funnel across the life sciences businesses and see momentum continuing to build with great examples of ongoing collaboration between SP, Comecer, Life Sciences systems, and BioDot.

For example, this quarter SP partner with Comecer and booked an integrated solution that included a flexible filling line for vials, syringes, and cartridges with an isolator. Synergies like this support our direction and the value proposition of our integrated Life Sciences group.

Transportation ending backlog was $887 million, up 350% year-over-year, driven by the shift to electrification of vehicles. Subsequent to the end of the quarter, we announced another US$120 million and follow on work from EV.

Our experience in this space, combined with market dynamics creates further opportunity for us to support key customers and the challenges they're facing in transforming their production capacity.

In Food and Beverage, we're seeing a strong funnel, particularly in the produce processing and keg filling spaces. Our backlog is now at its highest level since we entered this space. Our energy efficient solutions continue to be in demand and a higher energy cost environment, particularly in Europe.

In energy, governments are moving to decarbonize and boost energy security. Our focus remains on supporting nuclear customers as well as those working in such areas as grid battery storage. In Q3, received an order from a leading small modular reactor customer in the U.S., which sets us up for additional orders for their production plants.

Consumer products our backlog and funnel remains stable; however, inflationary pressures in this market can impact and consumer buying habits, which drives our customers' automation needs.

On our digital journey, connectivity, visualization, and data analytics can improve production outcomes for our customers by capturing and leveraging data in new ways and converting it to meaningful actions with our existing and expanding capabilities in PA along with other ATS offerings such as Illuminate.

We're providing new opportunities for our aftermarket service teams to deliver collaborative value added services. Aftermarket services remain an area of strategic focus across all parts of the business. Our funnel remains strong and our regional networks are now some reporting more of our acquired businesses, including CFT and SP in addition to all their operations.

On supply chain, we're still experiencing higher prices. Despite some improvement in lead times within the quarter, overall lead times remain extended and the situation remains challenging. Some of our components suppliers are experiencing gradual improvement.

That said, we expect continued pressure until they're able to work through their backlogs. We are prepared to operate with ongoing volatility in our supply chain, and our teams are focused on minimizing disruption to schedules and budgets through ABM savings workshops and other events. Our ABM continues to drive the business forward. During the quarter, we completed 37 ABM events across all business segments and affecting all of our value drivers.

Key events in Q3 targeted on time delivery with a focus on process improvements and time savings, as well as margin expansion with a focus on material usage and cost savings. As you know, ABM events are directly aligned to enhance our eight value drivers. The ABM also creates a continuous improvement culture that underpins our focus on profitable growth.

On M&A, integration of previous acquisitions across the business is progressing the plan, and our funnel development remains active and healthy. During the quarter, our PA Group announced and finalized the acquisition of IPCOS Group based in Belgium and agreed to acquire ZI-ARGUS, a well-established automation systems integrator in Southeast Asia and Australia.

These acquisitions add to our advanced process optimization and digital solutions and further strengthen our position in key regions and markets. On sustainability, the report that we released in Q3 highlighted our 2030 targets including three new ESG goals and strengthened our commitments to our

employees, customers, and shareholders. I encourage you to review our report if you have not done so already.

On innovation, we constantly work to strategically deployed capital and talent to create differentiated, enabling solutions and drive return. A few highlights; in energy, we're developing a manipulator system prototype for fueling small modular nuclear reactors as part of the order I mentioned earlier.

Then Food and Beverage, Raytec launched two new specialized machines to provide better imaging of produce, lead generation for both is positive. Within Comecer, we're testing a new solution for faster decontamination of aseptic, pharmaceutical isolators and hot cells, so the additive to our radial pharmaceutical product and technology portfolio.

Finally, we held our fifth Global Innovate Day. Event featuring over 100 people from four participating divisions plus participation from a local college as part of our focus on community outreach. The winning idea is expected to allow us to add laser marking functionality to our high-speed Symphoni platform.

All teams focused on ROI and quickly advancing concepts to refresh your innovation funnel in a single day. Innovate Day is a powerful way to bring our teams together to drive creative, faster and innovation.

In summary, we are encouraged by Q3 performance including our record bookings and revenue. Notably, our order backlog gives us an extended platform work on hand that contains high value mission critical work for customers.

We are pleased to be recognized again as both the best employer in Canada by Forbes Magazine, as well as a Waterloo Region Top Employer. And in Chicago, ATS was recognized as being one of the best and brightest companies to work for by the National Association for Business Resources. These are meaningful acknowledgments that help us retain and recruit top talent and drive further growth.

We are excited to refine and improve the ABM as a truly drives a competitive advantage for us. Despite economic uncertainty, our performances validating our strategy, and we remain confident our ability to generate profitable growth across the business. We look forward to continuing to deliver on our commitments to our customers and our shareholders.

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

Ryan McLeod

Thank you, Andrew, and good morning, everyone.

I'll start with a review of our Q3 operating results and then provide details on our balance sheet. Beginning with orders, bookings were $979 million, up 46% compared to Q3 last year. The increase was driven by organic growth of 38%, an additional 6% growth from acquired companies and a 2% benefit due to foreign exchange translation.

During the quarter ATS booked another $221 million U.S. dollars in EV orders from an existing global automotive customer as an expansion of their program. Bookings were up sequentially by $175 million compared to Q2 of this year. Our trailing 12-month book-to-bill ratio for Q3 was 1.29 to 1, positioning as well for continued revenue growth.

With Q3 revenues of $647 million, total top line growth was 18.3% over last year. Organic growth was strong at 9.6% and related primarily to increases in the transportation and consumer verticals. Wired companies added 7.5% to revenue growth and foreign exchange translation created a 1.2% benefit compared to Q3 last year.

Sequentially, revenues were up 9.9% compared to Q2 of this year, and we're in range with our backlog conversion expectations based on program timing, including stage of completion of some of our large enterprise orders. Our Q3 ending backlog of $2.14 billion was 45% higher than Q3 last year.

With continued positive growth in our order backlog, our revenue conversion for Q4 is estimated to be in the 29% to 32% range of backlog. We make this assessment every quarter based on revenue expectations for both the execution of projects from backlog and work that will be booked and built within the quarter.

Strong growth in our order backlog combined with the presence of longer duration enterprise programs has changed the ranger backlog conversion for this quarter. Overall, the increased size and duration of our backlog serves us well.

Q3 gross margin of 28.4% was 140 basis points lower than adjusted gross margin in Q3 last year. The year-over-year change was primarily due to the timing of execution of higher margin programs in Q3 last year as well as higher than normal inflation and longer lead times in our supply chain this year.

Sequentially, our adjusted gross margin compared to Q2 was up 30 basis points as we continue to effectively address challenges in our supply chain. During the quarter, we saw some reductions in lead times on several key components and some price relief on raw materials from Q2. However, electrical, mechanical, and fabricated parts were impacted by inflationary pressures and lead times remain longer than normal.

We expect the environment to remain volatile through Q4, and we are seeing continued price increases in some areas. As I've noted previously, over time, we were able to pass along many of these increases through our pricing, and we're actively mitigating in other ways, including accelerating vendor order timing, passing along increased pricing contractually where possible, and securing alternative sources of supply.

Moving to SG&A excluding acquisition related amortization and transaction costs, as well as $10.5 million of restructuring costs. Q3's SG&A was $93.2 million $13.3 million higher than last year, primarily reflecting incremental SG&A costs from acquired companies. Third quarter stock based compensation expense was $9.9 million, down $2.8 million from Q3 last year. Sequentially stock based compensation expenses increased by $4.6 million.

As a reminder, our stock-based compensation expense is subject to mark-to-market adjustment is impacted by approximately $1 million for every $1 change in our share price.

Q3 adjusted earnings from operations were $80.6 million or 12.5%, up $10.2 million compared to last year, and up $5.5 million sequentially. Compared to both periods, this primarily reflected revenue growth, partially offset by increased SG&A.

On restructuring, actions are underway to implement our previously announced plan to improve our cost structure and efficiency, primarily through management headcount and other cost reductions. We expensed $10.5 million in Q3, out of the total estimated cost of $20 million to $25 million for this plan. The majority of the remaining costs are expected to be incurred in the fourth quarter. Our estimated payback period is approximately 18 months.

Moving to the balance sheet. In Q3, cash flows generated from operating activities were $116 million as we reduced our working capital, primarily driven by timing of receipts against key building milestones on some of our large AV projects. Our non-cash working capital as a percentage of revenue was 13% in Q3. This is better than our stated target of 15% and an improvement from 16.1% in Q2.

Over the next several quarters, we expect our period and working capital to fluctuate as we continue to work through large program milestones. This may cause some variability to our working capital percentage over the next several quarters. We invested $25.5 million in CAPEX and intangible assets in Q3 compared to $11.3 million last year. We've had incremental spend this year to support our growth.

Our year-to-date spend is approximately $47 million, and we expect to spend around $80 million to $90 million for the entire year based on the needs of the business and timing of projects. On leverage,

since our acquisition of SP in December of '21 and our net debt to adjusted EBITDA ratio was 3.1 to 1, our leverage has reduced to 2.8 to 1 as of the end of Q3.

As noted in previous quarters, we generally target to be in the range of 2 to 3 times but are willing to increase our leverage for acquisitions or for short-term working capital needs. During the quarter, we extended our $750 million revolving credit facility to November of 2026. We also added a two-year $300 million term loan to our capital structure in order to provide flexibility and support our growth.

Our focus is on maintaining a strong balance sheet while giving us the flexibility to execute our strategies and drive long-term value creation for our shareholders.

In summary, ATS produced another quarter of record revenue and bookings as well as adjusted earnings in line with our expectations. We ended the period with record order backlog that support sustained growth, and our global teams are working hard to pursue new opportunities to continue to drive this growth. With our commitment to the ABM, our objective remains clear; to deliver value for our customers and our shareholders.

Now, we'll open the call to questions from our analysts.

Operator, could you please provide instructions? Thank you.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session.

Your first question comes from Cherilyn Radbourne with TD Securities. Please go ahead.

Patrick Sullivan – Analyst, TD Securities

Good morning. Thanks for the question. This is Patrick Sullivan on behalf of Cherilyn Radbourne. In the commentary around gross margins, it was mentioned that execution of higher margin programs in the prior period, and some of those supply chain headwinds and inflation played a part on the slight year-over-year decline. Looking at next quarter or next quarters, would you again be comparing to higher margin programs executing the prior period? I think you said that you're still seeing price increases, but would you say that the length of lead times has peaked or is moderating?

Ryan McLeod

Hi, good morning, Patrick. So, a couple items, and I'll try and address all the points, but if I miss one, please come back. First of all, on the comparison to year-over-year, you'll recall we booked a large Life Sciences program a year ago, and as I said most of that was completed over the last year. That's really what we're referring to in terms of year-over-year. That was part of our Q4 results as well.

In terms of going forward, if we start with where we are in Q3 as a jump off point in terms of margins, the environment and the dynamics we're dealing with today are similar to what we had in Q3. So, we're in the early stages of some of these newer large enterprise projects, which will be additive and improve margins over time.

Supply chain challenges do remain a part of what we're dealing with in the short-term, and that's both from a cost and lead time perspective. We've mitigated a lot of this today, but it is still what I would characterize as a dynamic environment. Our target remains to perform and drive margin expansion over the long-term, and certainly as the environment improves, that is our expectation.

Patrick Sullivan – Analyst, TD Securities

Okay. Thank you very much. If I can have another one. Sticking with the supply chain team, you've mentioned in prior periods that food and beverage saw elevated impacts based on the need for certain materials like stainless steels. As you begin executing on more of these large EV orders, is there anything specific to those projects that may be impacted from a parts or material availability standpoint?

Ryan McLeod

Short answer is no. Nothing of note. With food, what we've talked about in the past was there's a higher exposure to raw materials. As an example, that business is–a consumer uses a lot of high grade stainless steel. Within what we're doing in EV, we don't have that same raw material exposure.

Andrew Hider

Good morning. This is Andrew. Just to add, we have a very collaborative discussion with the customer on, when there's challenges, how we both come together to ensure that we minimize impact. While there is certainly challenges we look to overcome those and I've mentioned this in the past, but just as a reminder, we go to daily visual management across the board here, we've aligned around

ensuring that we look at short-term, mid-term and long-term countermeasures, and the team continues to drive to minimize impact across ATS.

Patrick Sullivan – Analyst, TD Securities

Thank you very much.

Operator

Thank you. The next question comes from David Ocampo of Cormark Securities. Please go ahead.

David Ocampo – Analyst, Cormark Securities, Inc.

Thanks. Good morning, everyone. Andrew, if I take a look at all your large EV awards, they've all been for one program, with one North American OEM, and you guys are opening up a second facility in Ohio. So, I'm guessing that that facility isn't just for your one customer. So, maybe you could speak to where you are with other OEMs as it relates to battery pack assembly.

Andrew Hider

Absolutely and good morning. We have an important customer and we continue to execute. As we look at the work we've done, we're very, very proud of what we've accomplished to-date and continuing to execute to align around this specific customer shift. That said, as you're well aware, we've been in this market for over a decade. We've won work and executed work in Europe. We have multiple customers in the U.S., and therefore, while we're very pleased with our progress, and our continued

alignment with a value for this specific customer, we work with many of the OEMs that are moving into this area and this space.

David Ocampo – Analyst, Cormark Securities, Inc.

When is that second facility in Ohio opening up? I know you broke ground last year.

Ryan McLeod

It'll be likely early April.

David Ocampo – Analyst, Cormark Securities, Inc.

Then, Ryan, I missed this on the on the call as a cut off for me, but the backlog turnover that that remains low just because of the EV related awards. But how should we be thinking about the range in terms of turnover as a go forward basis? I'm just trying to get a better sense on what we should be running through our models, not just for the upcoming quarter, but for future quarters as well.

Ryan McLeod

Yes, David, it's going to continue to be a little bit variable, and it's really going to depend on future bookings, duration of bookings and so forth. There's been a shift in the portfolio given the growth in EV, and these are longer duration projects than what we would have typically had in our backlog in the past. So, these are, from start to finish, typically 18 to 24 months where is the average prior would have been in the 9 to 12 month range.

As these are part of our backlog a generally expect it to remain low. Now, we also have shorter cycle business, we have product services, original equipment, which is more standard that does have a shorter book-to-bill cycle. All of that work is growing, but the growth in these large programs has caused this shift in the conversion rate.

David Ocampo – Analyst, Cormark Securities, Inc.

Got it. That's my two. Thanks, guys.

Ryan McLeod

Thank you.

Operator

Thank you. The next question comes from Michael Glen with Raymond James. Please go ahead.

Michael Glen – Analyst, Raymond James

Thanks. Good morning. I just want to start with the Life Sciences segment. If we're thinking, I know, you don't provide specific guidance, but if we're thinking over Fiscal '24 and '25, you refer to the strong funnel. I'm just wondering how you think that translates into organic revenue growth in the segment.

Andrew Hider

Hey, Michael. Just minor correction, it's actually $73 million in backlog in this area, and I did comment around the strong funnel. Let me pull (inaudible) a little bit. As we go back in this market, we've seen nice booking growth. More specifically, some of the areas we're seeing around this is, auto injectors continues to be a strength area, and if you're following some of the FDA approvals around the obesity aspect, certainly this is an area that will help, and an area that ATS can really support as customers drive here.

We're also seeing an impact and continued kind of alignment on growth on eye care. Then in our radiopharmaceuticals space, there's a new radioisotope that's coming out of two to five (phon) that we view, we've got a position that can really help customers as this new isotope helps with the discovery and treatment of cancer.

Then as you step back, and I talk a bit about this, the total impact of our Life Sciences group together and what that means on pharma and other industries, in other spaces. We've seen an increased growth in our funnel across whether it's our SP working with Comecer, which was in my prepared remarks, as well as we're seeing the likes of IWK engage and really align around this with BioDot and our Life Sciences systems group really bringing higher level of value to our customers.

So, overall, we view this as a key market for ATS, one that we see, and I mentioned it continued increase in our funnel, and areas that we really can help our customers as they navigate and launch products on time on budget at the highest level of quality.

Ryan McLeod

I just want to add a bit of color around some numbers too. EV has been a large part of our growth, but Life Sciences order bookings also grew 30% organically in the quarter. So, we are very pleased with the performance there. The book-to-bill over the last six months has been 1.11 to 1, so the business is performing very well and it's still 40% of our total corporations' bookings over the last four quarters.

Michael Glen – Analyst, Raymond James

Okay. Switching over to some additional info on the EV business. A couple questions that we do receive frequently on this topic. So, a), as we think about–you refer to these milestone payments that come in from the OEMs. Can you identify what some of those specific milestone items are that trigger payment? Then the other part of the question too is, I know that you do look to mitigate cost when you build out programs or bookings. Are you able to secure enough of the cost input so that you're comfortable with the margin profile on these larger programs?

Ryan McLeod

Yes. I'll start on milestones, and it's not unique to EV. This is when we're doing turnkey or even any equipment build. We have milestone payments in all those contracts, and they do vary from contract to contract or customer to customer. The typical milestones will be there could be an upfront deposit, there could be a milestone around completion of design, there could be milestones related to receipt of materials, power on completing the equipment in our factory or factory acceptance testing, and of course, site acceptance testing.

The level of milestone or the percentage of the total contract associated with each does vary. What's a little bit unique in EV is we do get we get milestones, but typically, these contracts don't have an initial deposit. So, as we take orders in, there is a working capital build, and some of the bookings we won earlier in the year, so back in Q1, Q2, we have received milestone payments on those. As we look forward in some of the bookings we did in the most recent quarter over the last three months, those will get into billing milestones in the short-term. All that drives drive some variability and given the size of these EV orders, we do, as I said, expect some variability there.

In terms of your cost question, so our typical process is to go out, and when we're bidding on work and quoting work, we are going out to our suppliers at that time and locking in pricing on major components. It varies from contract to contract, but typically, it's in the 60% to 80% range of materials that we are locking in, and that gives us a lot of cost certainty on these contracts.

There's other things we do too. If a customer requires us to use a certain component or a certain supplier, we will build in terms in the contract that allow us to pass on any changes in pricing. For these longer term projects, yes, we are able to mitigate a lot of that margin risk from inflation. We also we also build in expectations around our own costing too, whether it’s labor increases and so forth, but we don't do 100%. It's not practical at that bidding stage. We haven't done the complete design, but we do get good coverage through that process.

Michael Glen – Analyst, Raymond James

Thanks for the information.

Ryan McLeod

Welcome.

Operator

Thank you. Our next question comes from Justin Keywood of Stifel.

Justin Keywood – Analyst, Stifel

Good morning. Thanks for taking my call, and nice to see the momentum continued in the business. On M&A, we saw two relatively smaller acquisitions contribute in the quarter. I'm wondering in a more broad sense, how would you describe the funnel currently, if there's been any changes in multiples, and any possible verticals of focus that you would be looking to acquire into?

Andrew Hider

Yes, and good morning, Justin. If I step back and characterize our funnel, I would characterize it as it is and remains healthy. As you've heard me talk in the past, our focus has always been around how do we cultivate in strategic areas of focus. What we've seen in the evolution of ATS and our leadership is our leaders are now driving that cultivation and their businesses and their divisions.

Not only do we do it from a corporate perspective, we also are aligning this with our leadership and just a case in point, ZI-ARGUS was really aligned with the PA business and they cultivated and they aligned with, talking with this new add still needs to close to the ATS group and convincing them that they should be a part of the family.

So, our funnel remains healthy. We have key targeted areas. No secret, we like Life Sciences, we like regulated Food and Beverage. We like the digital journey and continuing to add to the digital journey. We have done that; we've continued to align around that. So, you're going to see us really continuing to monitor, build out, and stay very close with companies and technologies that we view will help ATS and continuing to create strong shareholder value.

As far as multiples, we haven't seen a marked difference as of today. We have four criteria, and our financial criteria is around ROIC, so that takes that into account, and for the right acquisitions, right areas of focus, we would move forward.

Justin Keywood – Analyst, Stifel

Thank you. Appreciate that. We saw the good cash generation in the quarter. We also saw some large EV contracts, I don't know, subsequent to the quarter. Maybe a question for Ryan is how do you see the working capital needs moving into Q4 and next year, and if it will remain below the target range?

Ryan McLeod

Yes, good morning, Justin. Q3 was a good cash generating quarter for us as we expected. I would say, we do expect variability going forward in this. The contracts that we announced early or late last quarter, early this quarter, those will have an initial working capital build with them, and some of those milestone payments associated with those will fall right around quarter end.

If we get cash payments through March 31 or April 1, it can drive a pretty big difference in that working capital percentage. So, over the six-month bit longer term period, we do expect to continue to operate in the range of that target, but we certainly could see that target exceeded at a particular quarter end as we saw it last quarter.

Justin Keywood – Analyst, Stifel

Understood. We saw the deleveraging occur in the quarter. Ryan, is there a comfort range that you target where the leverage ratio could come up a bit on potential M&A?

Ryan McLeod

We talked about two to three times and in operating within that, and with the ability to go above for certain M&A targets. Now, in order for us to do that, and it's part of our normal diligence process, but in particular, this kind of environment where there is a little bit more uncertainty. We're going to have to be really comfortable on the target and where they are, in their cycle, their working capital needs, their CAPEX requirements, profitability. But assuming we could get comfortable and tick all those boxes, we wouldn't be willing to add leverage to the balance sheet up into the mid-3s.

Justin Keywood – Analyst, Stifel

Understood, and thank you for taking my questions.

Ryan McLeod

Thank you, Justin.

Operator

Thank you. The next question comes from Sabahat Khan of RBC Capital Markets. Please go ahead.

Sabahat Khan – Analyst, RBC Capital Markets

Great. Thanks and good morning. Just I guess question on sort of the EV side and M&A. It is becoming a larger category for you. As you look at M&A, is there a potential that maybe you look at other opportunities to get involved within the EV space? Maybe just beyond kind of the battery side, or is the focus still really on some of your legacy business categories like Life sciences and Food and Beverage? Just curious how you're thinking about this sort of going business?

Andrew Hider

Good morning. Look, our funnel for M&A has many industries in it, and EV is a portion of that. I would say, we do look for, to be very specific for mission critical areas. When I step back and look at where we are today, with battery pack so many pack out, we would view this as a mission critical niche with a lot of potential.

So, we would look for those are continuing to build on that area, as we review that really does allow us to have a unique value into the markets. If, and, or when that becomes available, we would be in a position to move. We're patient. We look at the four criteria, we want to ensure that that any new ad will check all four and realign with longer term shareholder value creation.

Sabahat Khan – Analyst, RBC Capital Markets

Okay. Great. Ryan, I think you provided some color earlier on just how the milestone payments work. Just big picture question. A typical project that I think some of these EV orders in over a course of 18 to 24 months, how many milestone payments are there over that period? Just trying to understand how we should think about maybe cash flow from some of these larger projects or the orders.

Ryan McLeod

Good morning, Sabahat. So, on average, it's going to be in the 4 to 6 range. Variation outside of that as well, but that would be the best way to think about it.

Sabahat Khan – Analyst, RBC Capital Markets

So, 4 to 6 is typically across most major orders or this particular to the EV space?

Ryan McLeod

That applies across all orders.

Sabahat Khan – Analyst, RBC Capital Markets

Great. Thanks very much.

Ryan McLeod

Welcome.

Operator

Thank you. Our next question comes from Maxim Sytchev from National Bank Financial. Please go ahead.

Maxim Sytchev – Analyst, National Bank Financial

Andrew, I was wondering if you don't mind providing a bit of an update in terms of the CFT asset integration and how the cost base has been adjusted there? Thank you.

Andrew Hider

Yes. Look, we're headlined here on track, on plan for this business, and I'll just tell you, the team has done a very nice job of aligning this organization around the ABM, continuous improvement. They were part of a recent fairly large kaizen event across all of ATS. This team continues to make progress. We measure things aligned around when we do an integration around 30 days, 90 days, 6 months, and we have a year look back. I would say they're on track on plan, and we're pleased with the progress, and Ryan can provide little more specifics around performance now.

Ryan McLeod

Yes, good morning, Max. From a cost synergy perspective, well on track. Some of the areas we targeted, there's some day one clause from the public company that are out. There's been improvements made in the cost structure through some of the reorganization and rationalization actions

we've taken. Their supply chain savings funnel was very strong and we've seen really good alignment with our team there. It's made good year-over-year progress. It's up several 100 basis points from a margin standpoint, and as Andrew said, really benefiting from the ABM.

Maxim Sytchev – Analyst, National Bank Financial

Okay. Helpful. Thank you. Then, Andrew, just wanted to circle back to one of the earlier comments you made around battery storage. I'm just curious if you've tried to potentially wrap your head around sort of the scale of this opportunity to just given the need for that. And obviously, I presume the client base is going to be somewhat different. Is the go-to-market sort of strategy is going to be different relative to OEMs on the EV side of things, just maybe any color there?

Andrew Hider —

Yes, good morning, Max. So, let me start by walking a little bit around this market. We're able to utilize the knowhow that we've created for the EV shift to really benefit the customers that we're working with on this shift. That allows us to take the experience and knowhow the strong brands, the presence with our service support, and technology to this market.

While it's early in its journey, and it is early in its journey, we do view that there is, I would say, nice upside for the potential growth. But it's early, and I would say, when we think about this space, and I use the phrase mission critical, we would be considered mission critical on this move to this area. So, early days, not giving you exact number on market size because the market is new and it's growing significantly, but we need to execute, and we need to deliver the value for that for our customers.

Maxim Sytchev – Analyst, National Bank Financial

So, you have secured work in the space already though, is it fair to say?

Andrew Hider

Correct, we have.

Maxim Sytchev – Analyst, National Bank Financial

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

Operator

Thank you. Our next question is a follow-up from Patrick Sullivan at TD Securities. Please go ahead.

Patrick Sullivan – Analyst, TD Securities

Thank you for taking my follow-up. So many, many months ago, discussions around nuclear, specifically opportunities within nuclear decommissioning were being had. I was wondering you talk about the opportunities you're seeing there, or more recent world events and focus on energy security has shifted the context of those questions. It sounds like from your prepared remarks that the answer might be yes. So, can you just talk a little bit about that? Thank you.

Andrew Hider

Yes. Good morning, Patrick. While we've continued to see potential in this area in the space, I would say, as a whole, we've continued to expand around offering value into the refurbishment, and we just signed a longer-term service agreement in that space, and the recent award, our second award in the small modular reactors is really taking shape. Decommissioning will certainly be an area of continued focus, but we're pleased with our ability to expand into this new area.

Again, early days, but certainly one, as governments go into either decarbonizing or energy security. When you step back and look at that, nuclear is viewed as a greener option to be able to provide that energy efficiency and energy usage, and so, pleased with the progress, more work to do here. This is a niche area for ATS, and it's one that we view that that when aligned can offer high value for our customers.

Patrick Sullivan – Analyst, TD Securities

Thank you very much. That's all for me.

Operator

Thank you. The next question comes from Michael Glen of Raymond James. Please go ahead.

Michael Glen – Analyst, Raymond James

Hey. Thanks for taking the follow-up. Just to come back in on the EV discussion. Based on the work that you see right now, I guess you have a pretty good sense of where the margins sit, and I

think the verbiage you have used is that, this will be margin enhancing over time as a scale. Can you give some idea of the path towards that work being enhanced overall to your margins?

Ryan McLeod

Hi, Michael. I'll speak to this in a couple of different areas, just to be clear. So, from a gross margin perspective, this accretive progress (inaudible) business was, it is generally in line with where we are from a corporate average, but it will drive operating leverage in that part of our business over time. Now, in the short-term, as I've talked about, there's a lot of dynamics that we're dealing with, and so forth. But what we're doing for customers here, as Andrew talked about, it's strategic and so it has enabled a different conversation commercially with them.

Michael Glen – Analyst, Raymond James

Okay, but as it stands right now, are the margins you're seeing, are they in line with the overall Company average, or somewhat meaningfully different?

Ryan McLeod

They're in line.

Michael Glen – Analyst, Raymond James

They’re in line. Okay. And the CAPEX guide was $80 million to $90 million, was that the guidance that was given?

Ryan McLeod

That's correct. As I noted, or as it came up on the call, we have a couple of expansion initiatives underway. One is a facility which we expect to come online early in the next fiscal year. That's what's driving a lot of the spend there, those growth initiatives.

Michael Glen – Analyst, Raymond James

Okay. Thank you.

Operator

Thank you. The next question is from Sabahat Khan of RBC Capital Markets. Please go ahead.

Sabahat Khan – Analyst, RBC Capital Markets

Thanks. Maybe, Andrew, if I could maybe just follow-up on some of the commentary earlier about nuclear. I think you mentioned a couple of times some of the work you're doing on the SMR side. We've recently heard one of the companies involved in this space talk about the TAM could be very, very large globally. Maybe if you just share some color on the type of work or the type of involvement you could have on the SMR side. Obviously, still, a lot of uncertainty there, but just curious kind of the work you're doing there, and if you know you're involved with a recent project announced in Ontario as well?

Andrew Hider

So, let me work backwards on that. The recent announcement is potential. I'll just leave it at that; it is potential. Look, it's early in this market journey. While it's been around for a while, it's got a bit of a resurgence. Again, we've had more than one award in this space on the SMR space. Our mission is to really help these customers, and this most recent customer, prove out their technology, prove out their capability. And pleased with the order. We do view this has nice upside for ATS.

That said, we need to ensure that they can prove their technology before we start to build out kind of the full thinking on the markets. But if you step back, what do we do? If you could see me right now, you look like there's multiple tubes, we actually enable and help that as they're changing out the refueling process. It utilizes ATS core experience knowhow capability, it's one that is really aligned with what we can provide for strong value into the space, and really aligns to their ability to execute what they set out to execute. So, we do view this as having nice upside, but the technology needs to be proven, and the capability needs to be proven.

Sabahat Khan – Analyst, RBC Capital Markets

Great. Thanks so much for that.

Operator

Thank you. Our last question comes from Justin Keywood of Stifel. Thank you.

Justin Keywood – Analyst, Stifel

Thanks for the follow-up. On the aftermarket services, I know there's been good progress in this area. Are you able to provide the growth in the quarter, and what percentage the aftermarket services is for the overall sales? Thank you.

Andrew Hider

Good morning, Justin. After sales in the quarter, it grew in the low double-digit range. As a percentage, it is high teens.

Justin Keywood – Analyst, Stifel

Is there a target on what the aftermarket services could get to as a percentage of sales?

Andrew Hider

Justin, you're well aware, our target is to be over 20 and then continue to drive this. We have divisions and our business is that are close to 40, and we have others that are under the mark of where they need to be. Our view is this is strategic, it's an area we've invested in, and when you look at the customer behaviors, COVID has gone from this is a nice to have to mission critical.

So, our customers look to us to really drive this value and drive their ability to get their product out on time, on budget, and at the highest quality. And we've invested here. We now have a North American service center. We have a European Service Center. We've got digital tools. We've got an online ordering process. All that to be said, we do view that this is a growth engine, a growth driver, it is

one that we when acquire a business, it becomes one of the core things we bring in early on in the integration because it's one we can help with.

Our teams in these regions can do different markets, different capabilities, and really help expand that penetration. While we're pleased with the progress to Ryan's point, low double digits and growth in the quarter, early days in our journey, and one we think we can continue to drive.

Justin Keywood – Analyst, Stifel

Good to hear. Thank you for the follow-up.

Operator

Thank you. Mr. Hider, there no further questions. Back to you for closing comments.

Andrew Hider

Great. Thank you, Operator.

We look forward to staying focused on our goal of creating value for our customers and shareholders as we continue to execute. Thank you for joining us today. I look forward to speaking to you on our year-end in May.

Stay safe and goodbye for now.

Operator

Ladies and gentlemen, this does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines.