ATS REPORTS THIRD QUARTER FISCAL 2022 RESULTS

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CAMBRIDGE, ON, Feb. 2, 2022 /CNW/ - ATS Automation Tooling Systems Inc. (TSX: ATA) ("ATS" or the "Company") today reported its financial results for the three and nine months ended December 26, 2021.

Third quarter highlights:

- Revenues increased 47.9% year over year to $546.8 million.
- Earnings from operations[1] were $38.2 million (7.0% operating margin), compared to $32.3 million (8.7% operating margin) a year ago.
- Adjusted earnings from operations[1] were $70.4 million (12.9% margin), compared to $43.8 million (11.8% margin) a year ago.
- EBITDA[1] was $68.0 million (12.4% EBITDA margin), compared to $49.7 million (13.4% EBITDA margin) a year ago.
- Adjusted EBITDA[1] was $83.5 million (15.3% adjusted EBITDA margin), compared to $53.1 million (14.4% adjusted EBITDA margin) a year ago.
- Earnings per share were 25 cents basic and diluted compared to 20 cents a year ago.
- Adjusted basic earnings per share[1] were 52 cents compared to 30 cents a year ago.
- Order Bookings[1] were $671 million, 54.3% higher compared to $435 million a year ago.
- Order Backlog[1] increased 49.7% to $1,475 million at December 26, 2021 compared to $985 million a year ago.

"The third quarter of fiscal 2022 featured record Order Bookings, Order Backlog, and revenues driven by both organic growth and solid contributions from our acquisitions. The deployment of the ABM and effective countermeasures put in place to protect our people and our operations resulted in good results for customers and shareholders despite the resurgence of the COVID-19 pandemic and ongoing supply chain disruptions," said Andrew Hider, Chief Executive Officer. "Our record Order Backlog provides good revenue visibility and our strong balance sheet enables us to continue supporting our growth strategies."

Year-to-date highlights:

- Revenues increased 53.3% year over year to $1,579.6 million.
- Earnings from operations[1] were $126.8 million (8.0% operating margin), compared to $76.8 million (7.5% operating margin) in the prior year.
- Adjusted earnings from operations[1] were $206.7 million (13.1% margin), compared to $113.6 million (11.0% margin) in the prior year.
- EBITDA[1] was $209.7 million (13.3% EBITDA margin), compared to $130.3 million (12.6% EBITDA margin) in the prior year.
- Adjusted EBITDA[1] was $244.9 million (15.5% adjusted EBITDA margin), compared to $141.8 million (13.8% adjusted EBITDA margin) a year ago.
- Earnings per share was 88 cents basic and diluted compared to 44 cents in the prior year.
- Adjusted basic earnings per share[1] were $1.53 compared to 73 cents a year ago.
- Order Bookings[1] were $1,817 million, compared to $1,163 million a year ago.

Mr. Hider added, "Consistent with our strategy, ATS made three recent acquisitions to broaden our portfolio in key areas of life sciences including aseptic fill-finish and pharmaceutical development. The integrations of these businesses as well as CFT, BioDot, and NCC are progressing on plan as we focus on capturing all of the multi-year organic growth and cost synergy opportunities originally identified. With a larger team of talented and committed people, more capabilities for customers, and a sizeable funnel, ATS is well positioned for continued value creation."

[1] Non-IFRS measure: see "Notice to Reader: Non-IFRS Measures and Additional IFRS Measures".

Financial results

(In millions of dollars, except per share data)

	Three Months Ended December 26, 2021	Three Months Ended December 27 2020	Nine Months Ended December 26, 2021	Nine Months Ended December 27, 2020
Revenues	**$ 546.8**	$ 369.7	**$ 1,579.6**	$ 1,030.1
Earnings from operations	**$ 38.2**	$ 32.3	**$ 126.8**	$ 76.8
Adjusted earnings from operations[1]	**$ 70.4**	$ 43.8	$ **206.7**	$ 113.6
EBITDA[1]	**$ 68.0**	$ 49.7	**$ 209.7**	$ 130.3
Adjusted EBITDA[1]	**$ 83.5**	$ 53.1	**$ 244.9**	$ 141.8
Net income	**$** 23.3	$ 18.9	**$ 81.5**	$ 40.3
Basic and diluted earnings per share	**$ 0.25**	$ 0.20	**$ 0.88**	$ 0.44
Adjusted basic earnings per share[1]	**$ 0.52**	$ 0.30	**$ 1.53**	$ 0.73

[1] Non-IFRS measure: see "Notice to Reader: Non-IFRS Measures and Additional IFRS Measures".

Third quarter summary

Fiscal 2022 third quarter revenues were 47.9% or $177.1 million higher than in the corresponding period a year ago and included $114.6 million of revenues earned by acquired companies, most notably $73.4 million from CFT which was acquired in the fourth quarter of fiscal 2021. Organic growth, excluding contributions from acquired companies and the impact of foreign exchange rate changes, was $79.5 million, or 21.5% higher than the third quarter of fiscal 2021. Life sciences was the primary source of organic revenue growth on increased activity in medical device and pharmaceutical projects. Foreign exchange negatively impacted revenues by $17.0 million or 4.6% primarily reflecting the strengthening of the Canadian dollar relative to the U.S. dollar and Euro. Revenues generated from construction contracts increased 54.0% or $117.2 million due to a combination of revenues earned by acquired companies of $60.0 million (primarily $47.3 million from CFT), and organic revenue growth. Revenues from services increased 16.2% or $18.9 million primarily due to revenues earned by acquired companies of $13.6 million. Organic growth in services accounted for $5.3 million of the year-over-year increase due to the Company's utilization and expansion of its regional service networks and use of its digital support tools. Revenues from the sale of goods increased 115.5% or $41.0 million due to revenues earned by acquired companies, primarily CFT and SP, which generate a higher percentage of their revenues from product sales.

By market, revenues generated in life sciences increased $89.3 million or 41.9% year-over-year. This growth reflected higher Order Backlog entering the third quarter of fiscal 2022 compared to the corresponding period in the prior year, and included $27.3 million of revenues earned by acquired companies, primarily BioDot and SP. Revenues generated in food & beverage increased $76.5 million or 757.4%, primarily due to the acquisition of CFT in the fourth quarter of fiscal 2021. CFT generated $73.3 million of food & beverage revenues in the third quarter of fiscal 2022. Revenues in transportation increased $4.4 million or 6.6%, on higher Order Backlog entering the third quarter of fiscal 2022. Revenues generated in consumer products increased $9.0 million or 17.6%, on higher Order Backlog entering the third quarter of fiscal 2022. Revenues in energy decreased $2.1 million or 7.3% due to project timing and lower Order Backlog entering the third quarter.

Net income for the third quarter of fiscal 2022 was $23.3 million (25 cents per share basic and diluted), a $4.4 million (or 23.3%) increase compared to $18.9 million (20 cents per share basic and diluted) for the third quarter of fiscal 2021. The increase related primarily to an increase in earnings from operations (see below).

Fiscal 2022 third quarter earnings from operations were $38.2 million (7.0% operating margin) compared to $32.3 million (8.7% operating margin) in the third quarter a year ago. Fiscal 2022 earnings from operations included: $5.1 million of acquisition-related fair value adjustments to acquired inventories recorded in cost of revenues, $16.7 million related to amortization of acquisition-related intangible assets and $6.3 million of incremental costs related to the Company's acquisition activity recorded to SG&A expenses and $4.1 million of restructuring costs. Fiscal 2021 earnings from operations included $8.1 million of amortization of acquisition-related intangible assets, $2.5 million of incremental costs related to the Company's acquisition activity and a $5.3 million gain on the sale of a facility recorded to SG&A expenses and $6.2 million of restructuring costs.

Excluding these items in both quarters, adjusted earnings from operations were $70.4 million (12.9% margin), compared to $43.8 million (11.8% margin) a year ago. Contributions from acquired companies were $8.4 million, with BioDot contributing $3.3 million, and CFT contributing $2.7 million. Third quarter fiscal 2022 adjusted earnings from operations reflected higher gross margin due to efficiency gains made in the Company's cost structure as a result of previously implemented reorganization plans, improved program execution, which reduced the number and impact of Red projects (projects that are not on budget, on schedule or have quality issues), increased revenues from after-sales services, as well as a reduction in COVID-19 related travel and entry restrictions and temporary closures at customer sites compared to a year ago.

Depreciation and amortization expense was $29.8 million in the third quarter of fiscal 2022, compared to $17.4 million a year ago. The increase was primarily due to the addition of identifiable intangible assets recorded on the acquisitions of CFT, BioDot and SP.

EBITDA was $68.0 million (12.4% EBITDA margin) in the third quarter of fiscal 2022 compared to $49.7 million (13.4% EBITDA margin) in the third quarter of fiscal 2021. EBITDA for the third quarter of fiscal 2022 included $4.1 million of restructuring charges, $6.3 million of incremental costs related to the Company's acquisition activity, and $5.1 million of acquisition-related inventory fair value charges. EBITDA for the corresponding period in the prior year included $2.5 million of incremental costs related to the Company's acquisition activity, $6.2 million of restructuring charges and a $5.3 million gain related to the sale of a facility. Excluding these costs, adjusted EBITDA was $83.5 million (15.3% adjusted EBITDA margin), compared to $53.1 million (14.4% adjusted EBITDA margin) a year ago. Higher adjusted EBITDA margin reflected operating improvements including an improved cost structure and less pronounced pandemic inefficiencies than in the same period a year ago.

Order Backlog Continuity

(In millions of dollars)

	Three Months Ended December 26, 2021	Three Months Ended December 27, 2020	**Nine Months Ended December 26, 2021**	Nine Months Ended December 27, 2020
Opening Order Backlog	**$ 1,295**	$ 956	**$ 1,160**	$ 942
Revenues	**(547)**	(370)	**(1,580)**	(1,030)
Order Bookings	**671**	435	**1,817**	1,163
Order Backlog adjustments[1]	**56**	(36)	**78**	(90)
Total	**$ 1,475**	$ 985	**$ 1,475**	$ 985

[1] Order Backlog adjustments include incremental Order Backlog of acquired companies ($104 million SP included in the three- and nine-months ended December 26, 2021, $13 million NCC and $24 million BioDot included in the nine-months ended December 26, 2021), foreign exchange adjustments, scope changes and cancellations.

Order Bookings by Quarter

Third quarter fiscal 2022 Order Bookings were $671 million. The 54.3% year-over-year increase reflected organic growth of 17.8% and 41.1% growth from acquired companies, partially offset by a 4.6% decrease due to foreign exchange rate translation of Order Bookings from foreign-based ATS subsidiaries, primarily reflecting the strengthening of the Canadian dollar relative to the U.S. dollar and Euro. Growth in Order Bookings from acquired companies totalled $179 million, of which CFT contributed $133 million. By market, Order Bookings in life sciences were flat. Order Bookings in food & beverage increased due to the addition of CFT. Order Bookings in transportation increased due to an EV program win and timing of customer orders. Order Bookings in consumer products increased due to a large customer project award. Order Bookings in energy increased due to timing of customer projects, primarily in the nuclear market.

Third quarter fiscal 2022 book-to-bill ratio was 1.23:1, compared to 1.18:1 in the corresponding period a year ago.

Backlog

At December 26 2021, Order Backlog was $1,475 million, 49.7% higher than at December 27, 2020. Order Backlog growth was primarily driven by higher Order Bookings in fiscal 2022 in all end markets, and Order Backlog from acquired businesses.

Outlook

The Company's funnel (which includes customer requests for proposal and ATS-identified customer opportunities) remains significant; however, the timing to convert opportunities into Order Bookings may be extended as some customers manage their responses to the pandemic by delaying planned project timing. By market, the life sciences funnel remains robust as a result of strong activity in medical devices, pharmaceuticals and radiopharmaceuticals. Funnel activity in food & beverage is robust and with the addition of CFT, the Company has improved exposure to opportunities in this market. In transportation, the funnel largely includes strategic opportunities related to electric vehicles, a growing market. Funnel activity in energy is stable and comprised of some longer-term opportunities. Funnel activity in consumer products has improved; however, management expects some customers to remain cautious in deploying capital in the current economic environment. Order Backlog of $1,475 million will help mitigate the impact of quarterly variability in Order Bookings on revenues in the short term.

The Company's Order Backlog includes several large enterprise programs that have longer periods of performance and therefore longer revenue recognition cycles. In the fourth quarter of fiscal 2022, management expects the conversion of Order Backlog to revenues to be in the 35% to 40% range. This estimate was calculated based on the combination of management's estimate of current projects which comprise Order Backlog and historical Order Backlog conversion data.

The Company's approach to the market and the timing of customer decisions on larger opportunities is expected to cause variability in Order Bookings from quarter to quarter and lengthen the performance period and revenue recognition for certain customer programs. The revenue of the Company in a given period is dependent on a combination of the volume of outstanding projects the Company is contracted to and the size and duration of those projects, and is driven by project activities including design, assembly, testing, and installation. Given the specialized nature of the Company's offerings, the size and scope of projects vary based on customer needs. The Company seeks to achieve revenue growth organically and by identifying strategic acquisition opportunities that can provide access to attractive end-markets. The Company is working to grow its product portfolio and after-sales service revenues as a percentage of overall revenues over time, which is expected to provide some balance to the capital expenditure cycle of the Company's customers.

Management is pursuing several initiatives to grow its revenues and improve its profitability with the goal of expanding its adjusted earnings from operations margin to 15% over the long term from 13.1% in the first nine months of fiscal 2022. These initiatives include growing the Company's after-sales service business, improving global supply chain management, increasing the use of standardized platforms and technologies, growing revenues while leveraging the Company's cost structure, and pursuing continuous improvement in all business activities through the ABM.

In the short term, the global COVID-19 pandemic has disrupted global supply chains, leading to longer lead-times and cost increases on certain raw materials and components used by the Company. To date the Company has largely mitigated these supply chain disruptions through the use of alternative supply sources and savings on materials not affected by cost increases. However, further cost increases or prolonged disruptions could impact the timing and progress of the Company's margin expansion efforts and the timing of revenue recognition. Achieving the margin target assumes that the Company will successfully implement the initiatives noted above, and that such initiatives will result in improvements to its adjusted earnings from operations margin (see "Note to Readers: Forward-Looking Statements" for a description of the risks underlying the achievement of the margin target in future periods).

The Company continues to make progress in line with its plans to integrate businesses acquired over the last year, and expects to realize cost and revenue synergies consistent with announced integration plans. BioDot has previously benefitted from increased volumes related to specific COVID-19 applications, which have diminished as expected in the Company's third fiscal quarter. During the third quarter, as part of the integration of CFT, and pursuant to its strategy of improving business performance, the Company initiated a restructuring plan, which included the closure of two underperforming CFT facilities along with other cost reductions. This reorganization will result in the rationalization of some underperforming businesses and bring focus to areas with a stronger value proposition. The Company recorded restructuring expense of $4.1 million in the third quarter of fiscal 2022 in relation to the reorganization.

COVID-19 resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which included the implementation of travel restrictions, quarantine periods and physical distancing requirements have affected economies and disrupted business operations for ATS and its customers. Vaccination programs are underway, however, the recent rise of a new variant (Omicron) of COVID-19 has resulted in another round of lockdowns and travel restrictions in certain jurisdictions served by the Company. As a result, it remains difficult to predict the duration or severity of the pandemic or its affect on the business, financial results and conditions of the Company.

Over the long term, the Company generally expects to continue investing in non-cash working capital to support the growth of its business, with fluctuations expected on a quarter-over-quarter basis. The Company's goal is to maintain its investment in non-cash working capital as a percentage of annualized revenues below 15%. The Company expects that continued cash flows from operations, together with cash and cash equivalents on hand and credit available under operating and long-term credit facilities will be sufficient to fund its requirements for investments in non-cash working capital and capital assets, and fund strategic investment plans including some potential acquisitions. Acquisitions could result in additional debt or equity financing requirements for the Company.

Quarterly Conference Call

ATS will host a conference call and webcast at 8:30 a.m. eastern on Wednesday, February 2, 2022 to discuss its quarterly results. The listen-only webcast can be accessed live at www.atsautomation.com. The conference call can be accessed live by dialing (416) 764-8659 five minutes prior. A replay of the conference will be available on the ATS website following the call. Alternatively, a telephone recording of the call will be available for one week (until midnight February 9, 2022) by dialing (416) 764-8677 and entering passcode 786045 followed by the number sign.

About ATS

ATS is an industry-leading automation solutions provider to many of the world's most successful companies. ATS uses its extensive knowledge base and global capabilities in custom automation, repeat automation, automation products and value-added services including pre-automation and after-sales services, to address the sophisticated manufacturing automation systems and service needs of multinational customers in markets such as life sciences, food & beverage, transportation, consumer products, and energy. Founded in 1978, ATS employs over 6,000 people at more than 50 manufacturing facilities and over 75 offices in North America, Europe, Southeast Asia and China.