

S&P Global

Market Intelligence

ATS Corporation TSX:ATS

Earnings Call

Wednesday, November 6, 2024 1:30 PM GMT

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Call Participants

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Presentation

Operator

Welcome to the ATS Corporation Second Quarter Conference Call and Webcast. This call is being recorded on November 6, 2024 at 8:30 a.m. Eastern Time. Following the presentation, we will conduct a question-and-answer session.

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

David Galison

Head of Investor Relations

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 the statements are detailed on Slide 3 of the slide deck.

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

Andrew P. Hider

CEO & Director

Thank you, David. Good morning, everyone, and thank you for joining us. Today, ATS reported second quarter results for fiscal '25, which as expected were challenged due to lower revenues in Transportation, where we realigned our cost structure to protect margins and drive performance improvements. We are pleased with execution across the rest of the business, notably in Life Sciences, where we drove our highest ever quarterly bookings, both organically and through our recent acquisitions.

During the quarter, we successfully completed the acquisitions of both Paxiom and Heidolph. Both of these companies provide differentiated solutions across a range of industries that we expect will be a strong complement to our existing portfolios in Food and Beverage and Life Sciences.

Today, I will update you on our business and markets and Ryan will provide his financial report. In addition, as we disclosed today, we have been and continue to be engaged in ongoing discussions with one of our EV customers with respect to outstanding payments owed on large EV projects. Ryan will provide additional information in his remarks.

Starting with our financial value drivers. Order bookings for the quarter were \$742 million, flat year-over-year as strong growth in Life Sciences offset lower EV bookings as expected. As we had previously noted, we expect Transportation to be a smaller portion of our overall business going forward. Q2 revenues were \$613 million, down 17% from Q2 last year, mainly due to expected lower EV revenues. Recent large program wins in Life Sciences will ramp up [Technical Difficulty] revenues in future periods. Adjusted earnings from operations in Q2 were \$57 million.

Moving to our outlook. Order backlog ended the quarter at just over \$1.8 billion with trailing 12-month book-to-bill ratios once again, at or above 1 in all market verticals, except Transportation. By market, Life Sciences backlog was a record \$1.1 billion, an increase of 32% compared to Q2 last year, with continued booking strength in our key submarkets, including radiopharma, GLP-1 auto-injectors, wearable devices and contact lenses.

Our Life Sciences opportunity funnel is strong. We continue to identify opportunities which leverage the full breadth of our capabilities to deliver integrated solutions to our customers. A recent highlight is a collaboration between our Life Sciences Systems and Comecer businesses to support a key customer on our Dual Chamber Syringe assembly system for cancer treatments.

Building our Life Sciences Integrated Solutions funnel continues to be a focal point, and we have identified a number of opportunities for collaboration between Comcer, Paxiom, SP, BioDot and IWK.

In Food and Beverage, ending backlog for the second quarter was \$210 million, an increase of 30% compared to prior year. Our funnel remains strong and now includes Paxiom opportunities, which have grown incrementally since acquisition. With Paxiom as part of ATS, we look forward to leveraging customer synergies in Food and Beverage, but also in Life Sciences and Consumer.

In Energy, our funnel is strong, with the refurbishment of existing nuclear reactors remaining a key driver. We also have opportunities to serve customers in the SMR market where we are supporting ongoing concept development work, positioning ourselves for opportunities as the demand for this technology increases over the long term. Recent investments by technology companies in nuclear energy support our strategy in the SMR market and reinforces the viability of nuclear energy as a reliable green energy source.

In Consumer Products, our funnel remains stable with niche opportunities in areas such as warehouse automation and consumer packaging. In Transportation, we made meaningful progress on realigning the cost structure. This has included reallocating workforce and capacity to other parts of the business, mainly Life Sciences. In addition, as I noted earlier, Ryan will provide further commentary on the recent commercial discussions with one of our EV customers.

On after sales services, our strategic focus is progressively expanding our core service capabilities from technical support and asset monitoring to complete production monitoring with deep customer knowledge and technical expertise. With our Connected Care Hub in Cambridge, we've onboarded initial customers and we are working to bring connected 24/7 support to additional key accounts, further deepening our relationships and creating opportunities for growth.

On our digital offerings, demand is positive for solutions which improve productivity, energy management and process automation applications and enterprise-level insights. We continue to advance our offerings in this space, including our internal capabilities, to create more opportunities for customer interaction, data analytics and access to service offerings.

We also bolstered our digital capabilities by acquiring the assets of UReality, a small software development business in Germany that specializes in augmented reality and virtual reality experiences. Our ATS business model continues to bring our people together to solve problems and drive continuous improvement across the organization.

And ABM adoption in acquired companies is progressing well. I've recently spent time at Avidity, Paxiom and Heidolph locations with early ABM adoption clearly evident and the teams are excited to use the tools and embrace continuous improvement. Across ATS, we continue to see increased participation in our ABM Boot Camps as employees demonstrate their commitment to building skills and driving impact.

On M&A, our integration work is ongoing with our recent acquisitions which support expansion of our products and reoccurring revenue portfolio. In the short term, we are focused on bringing leverage to targeted levels while continuing to cultivate the right opportunities that will strengthen our business and create value over the long term.

Cultivation takes time. A great example is Heidolph, which we have been monitoring for over 3 years before we had the right opportunity to execute on the deal in a quick and effective manner. Our M&A funnel remains active and our portfolio is diversified across a range of target sizes and markets. We maintain our disciplined approach as we assess targets while engaging and cultivating opportunities that align with our strategic initiatives.

On innovation, we prioritize strategic capital investments into solutions that drive returns. A few highlights from the quarter. In Food and Beverage, we launched digital tomato, which uses our PA Facts technology and allows customers to monitor and proactively optimize tomato production during the harvest season to prevent downtime and regulate energy usage.

In Life Sciences, our Comecer team developed a new solution called MODUS, a modular system that can prepare up to four different radiopharmaceuticals sequentially without the need for time-consuming cleaning and decontamination between batches. Also in Life Sciences, our ATS Innovation Center completed significant under-the-hood improvements to SuperTrak that will be on display next week at the SPS Expo in Germany.

The new SuperTrak HORIZON3 will give our teams access to new markets and provide improved performance to meet demands of cutting-edge assembly equipment, including our own Symphoni system. ATS has been a pioneer, an innovation leader in linear motion conveyors over 25 years. And SuperTrak HORIZON3 CONVEYANCE platform continues this tradition.

In summary, performance was mixed in the quarter, given challenges in Transportation. We continue to work through commercial discussions with one of our EV customers. In the rest of our business, we are pleased with our second quarter bookings and performance. Our backlog, which is anchored in regulated markets, provides us with good revenue visibility as we move ahead.

As we transition into the second half of fiscal '25 and next year, our focus remains on driving profitable growth, both organically and by acquisition. I'm also pleased to announce that ATS was recently ranked in a list of Canada's Most Responsible Companies for 2025 by Newsweek, highlighting the strength of our dedicated teams as they demonstrate exceptional commitment to innovation, and on maintaining our clear customer-centric approach to drive long-term value creation.

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

Ryan McLeod
Chief Financial Officer

Thank you, Andrew and good morning, everyone, and thank you for joining us this morning. Beginning with our operating results for the quarter. We drove solid order bookings of \$742 million, in line with Q2 last year.

Life Sciences recorded the highest quarterly bookings in company history, driven by organic growth with contributions from acquisitions, primarily Avidity. Our trailing 12-month book-to-bill ratio at the end of Q2 is 1.06: 1. Excluding Transportation, this ratio was 1.2:1 with all other market verticals maintaining a book-to-bill ratio above 1.

Q2 revenues were lower, as expected, at \$613 million, a 16.7% decrease compared to prior year. Organic growth in Life Sciences, Consumer and Energy was strong. We also realized a 6% contribution from recent acquisitions. This provided some mitigation to lower revenues in Transportation following peak EV contributions from large order bookings in prior periods.

In Food, lower revenues were primarily a result of a tougher comp in Q2 last year when we benefited in Europe from a surge in energy costs, which drove demand for our energy-efficient solutions in primary processing for the tomato market.

Moving to earnings. Q2 adjusted earnings from operations were \$56.5 million, down 43% from Q2 last year, reflecting lower revenue volumes. As I noted, headwinds in Transportation reduced revenues and resulted in operating losses in the quarter in those businesses, which negatively impacted overall company profitability.

Q2 gross margin, excluding acquisition-related inventory fair value charges, was 29.6%, an increase of 123 basis points from the prior year driven by an improved mix of higher-margin programs and supported by an improved supply chain environment.

On SG&A, excluding acquisition-related amortization and transaction costs, second quarter expenses were \$120 million, a \$15.4 million increase over the prior year, primarily from incremental acquisition-related costs, mostly from Avidity, along with some foreign exchange impacts.

Excluding the mark-to-market impact related to changes in our share price, stock-based compensation expense was \$4.6 million in Q2, consistent with the prior year. Adjusted EPS was \$0.25 in Q2, down from last year, primarily due to lower volumes.

Moving to our outlook. We finished the quarter with just over \$1.8 billion of order backlog. And we estimate Q3 revenues to be in the range of \$620 million to \$680 million. For clarity, we are providing this information on a revenue dollars basis instead of a backlog conversion percentage as has been our past practice.

As a reminder, this assessment is updated every quarter based on revenue expectations from existing order backlog and new orders booked and billed within the quarter. In addition, in light of the continuing market conditions with respect to reduced North American EV sales growth, we have removed approximately \$150 million of order backlog related to EV projects that we had previously reported as delayed. As a reminder, this order backlog had previously been excluded from our revenue expectations for fiscal '25.

Margin expansion remains a key priority for ATS. We're leveraging ABM tools to achieve our goals, including an ongoing priority on project execution through Kaizens, the connect teams with data-driven leading and lagging indicators, processes and tools. Our supply chain teams continue to use data analytics, daily visual management tools and value engineering to drive efficiency.

In the short term, we expect sequential growth in revenues to improve operating leverage. However, we will continue to see some headwinds, particularly in our transportation businesses until we complete our reorganization activities. Last quarter, we announced a plan to spend up to \$20 million to reduce our cost structure, primarily in our transportation business to reflect expectations of lower revenues in this vertical.

During Q2, we reduced our workforce and reallocated resources as part of this plan and incurred \$17.1 million of restructuring costs. We expect to complete the remainder of these initiatives in the third quarter.

Moving to the balance sheet. In Q2, cash flows used in operating activities were \$44.8 million. Cash usage was primarily related to the timing of progress billings and collection of those billings on our larger projects. Our noncash working capital as a percentage of revenue was 30%, up from 23.4% at the end of fiscal '24.

As Andrew noted, we are working to resolve a disagreement with one of our EV customers. The systems related to this disagreement are operating and producing and where we have completed our commissioning procedures, the systems have met or exceeded expectations. That said, until the disagreement is resolved, we don't anticipate collection on the overdue balance or other amounts on the balance sheet, including overdue accounts receivable of approximately \$155 million and approximately \$170 million of contract assets reflecting work completed and remaining to be invoked.

As such, working capital is expected to remain above our target level. But we do anticipate improvement overall as milestone billings are completed and collected in other parts of the business in the normal course. During the quarter, investments in CapEx and intangible assets were \$16.8 million and we expect our annual spend to be in the range of \$70 million to \$90 million. We continue to invest in innovation in key growth areas.

On leverage, our net debt to adjusted EBITDA ratio as of the end of Q2 was 3.4x on a pro forma basis, which includes full year contributions from our most recent acquisitions, Avidity, Paxiom and Heidolph. Our target range for leverage is 2 to 3x. And in the short term, we are committed to returning leverage to our target range.

In August, we successfully completed a CAD 400 million offering of senior unsecured notes. We used the proceeds from this transaction to pay outstanding amounts owed under our credit facility.

In summary, in the near term, our strong order backlog provides us with good revenue visibility. We expect short-term margin pressures from lower transportation revenues to reduce as we complete our reorganization activities and drive growth in the rest of the business, led by Life Sciences. Our

recent acquisition of Paxiom and Heidolph bolster our positions in food and packaging and Life Sciences, respectively.

Looking ahead, we're encouraged by the strong momentum of our life science business as well as the backlog and funnel activity in other market verticals. We see opportunities for growth and innovation across ATS, and we are well positioned to capitalize on. We remain aligned to our core values of people, process and performance and utilizing the ABM to drive disciplined, purposeful, continuous improvement. Now we will open the call to questions from our analysts. Operator, could you please provide instructions? Thank you.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Sabahat Khan with RBC.

Sabahat Khan

RBC Capital Markets, Research Division

Maybe if you can just give us a bit more color on some of the puts and takes in the backlog. I know Andrew, you provided a bit of color on just the broader outlook. But maybe just the moving pieces between kind of the new orders, the order that you removed. And maybe more importantly, just the discussions you're having, in particular, in Life Sciences, Food and Beverage and just kind of trying to get a perspective on the outlook as we head into sort of the back half of this fiscal year for you and into '26. Just your confidence on sort of the next year being a bit more of a growth year on organic front.

Ryan McLeod

Chief Financial Officer

So it's Ryan. I'll start. So as we said, bookings in the quarter were \$742 million. In terms of backlog adjustments, they're about \$187 million in the quarter. The majority -- and that's a reduction. The majority of that relates to the large EV program that was put on hold several quarters ago, and we have now removed that from our order backlog as we don't expect the program to proceed.

Other than that, there is some normal core scope changes where content gets removed, stations change, capacity and so forth, but nothing of note in terms of size. As we said, we feel very good about where we are from a backlog perspective. We have record order backlog in Life Sciences. It's up 32% year-over-year. Consumer is up 9%, Food is up 30% and Energy remains strong, it's flat year-over-year. So we are up in all markets with the exception of Transportation and where Energy is flat.

Andrew P. Hider

CEO & Director

Yes. And Sabahat, maybe I'll just add on a little bit here. Ryan touched on it, but if you look across our business, all markets except Transportation book-to-bill ratio trailing 12 months is above 1. So overall, a good quarter in Life Sciences and other parts of the business. And as expected, lower revenue and margins in Transportation.

And obviously, we're mitigating that risk and limiting that marketing impact. Additionally, we closed two acquisitions within the quarter. Very strategic, very much aligned with the future and where we're driving the business with Paxiom and Heidolph. So highest Life Sciences backlog in history, trailing 12-month book-to-bill ratio above 1 in all markets except Transportation and funnels remain healthy.

Sabahat Khan

RBC Capital Markets, Research Division

Great. And then maybe just on the kind of the rightsizing within the Transportation business. Can you maybe just share some color on what cost reductions or rightsizing or maybe reallocation you've undertaken thus far and what might still be remaining?

Ryan McLeod

Chief Financial Officer

Yes. So as we talked about, we spent about \$17 million in the quarter, primarily related to head count reductions. We've also reallocated resources and that's both people and footprint to other parts of the business. It's primarily Life Sciences. From a payback perspective or an ongoing savings, it's -- the savings tied to the spend are well in excess of the spend and most of it relates to direct labor.

And as we talked about, really making sure that our cost structure is aligned to the market activity in our Transportation vertical. And most of the actions are complete. There is -- there are a few that do take a little bit longer to implement, and we expect those will be completed in the third quarter.

Sabahat Khan

RBC Capital Markets, Research Division

Great. And then just one last one for me. On the EV work that you're doing for your large customer, just to be clear, are you still kind of chipping away at the work for this client while you work on collections for some of the pass work? Or is that on hold? And then secondly, is there -- are you able to provide some perspective on if there's a time line on how long it may take to figure out the payments on the work already done?

Andrew P. Hider

CEO & Director

Yes. So Saba, before we address additional questions on our EV projects, just to let you know that there are some items we can't discuss. And that's including the name of the customer as well as certain contract operational and financial details beyond what's described in our disclosure materials.

Now we'll be obviously forthcoming as we can. We understand that we have to draw the line just given the nature and status of customer discussions. What we can say is we've delivered equipment according to our contracts and where we fully commissioned the equipment, it's meeting or exceeding expectations.

Many of our projects have a high degree of complexity and that requires ongoing discussions with our customers. In this case, very recently, our conversations have become more challenging. And we continue our discussions with the customer, and we're hopeful that we'll come to resolution, but we're prepared to exercise our rights to be paid for the work we've done.

Ryan McLeod

Chief Financial Officer

And I'll just add on in terms of time line. As Andrew said, we are continuing discussions. We're hopeful that will come to resolution, but we're also prepared to exercise our rights to be paid for the work we've done. There's a variety of ways we could pursue resolution, but that will be dependent on how discussions go and that will ultimately drive time line.

Operator

Our next question comes from the line of Justin Keywood with Stifel.

Justin Keywood

Stifel Nicolaus Canada Inc., Research Division

Just on the EV discussion in the opening remarks, there was some commentary expecting the EV segment to be a smaller percentage going forward. Any updated parameters on what that could be?

Ryan McLeod

Chief Financial Officer

So Justin, it's -- I mean as we look at it today, it's about 11% of our order backlog. So I think that's a reasonable range in the high single digits, low double digits.

Justin Keywood

Stifel Nicolaus Canada Inc., Research Division

And is there any indication of that, around 10%, how diversified would that be? Would that comprise of a number of customers? Or would that still include the large OEM?

Andrew P. Hider

CEO & Director

Yes. Justin, so if you step back and look at our funnel, our funnel is healthy. It's diversified customers and it's on a more smaller scale of projects. And I would say the large scale, while they're certainly out there, given the market dynamics, we're seeing more in line with continued execution, but a diversified customer base.

Justin Keyword

Stifel Nicolaus Canada Inc., Research Division

In discussion on margins, there was also a commentary that there could be some continued impacts. But is it fair to assume that fiscal Q2 is low and there would be some progression in the back half of the year?

Ryan McLeod

Chief Financial Officer

So Justin, yes, that is fair. And to provide a bit more color. So we've spoken about headwinds in Transportation, excuse me, in EV that's impacted our revenues. We are seeing growth in our other market verticals and our book-to-bill, I would say, excluding Transportation, is 1.2. So we do expect improvement as revenues continue to increase from Q2, and we'll also see the benefit of our lower cost structure in our transportation business that will benefit our margins. So yes, your assumption is correct.

Justin Keyword

Stifel Nicolaus Canada Inc., Research Division

If I could just slip in one more. The expected exit leverage ratio, did you have that?

Ryan McLeod

Chief Financial Officer

Our leverage is 3.4x.

Justin Keyword

Stifel Nicolaus Canada Inc., Research Division

And is there an anticipated exit ratio for fiscal '25?

Ryan McLeod

Chief Financial Officer

Oh, sorry, I didn't understand your question. Well, so again, we're -- we talked about in our prepared remarks, our commitment to reducing leverage to our target range. I think outside of the working capital that is tied up on our large projects, we do expect to see improvement from where we were in the second quarter in the rest of the business. And so what I'll say is we expect improvement over the -- by the end of the year, but I'm not going to provide a precise time line on when we get there.

Operator

Our next question comes from the line of David Ocampo with Cormark Securities.

David Ocampo

Cormark Securities Inc., Research Division

I just wanted to follow up Justin's question, but ask in a different way as it pertains to M&A. I mean if there's any delays as it relates to the payment, I know you don't want to put a time line on it, but it does put your leverage probably closer to the top end of where you're comfortable with. Does that pause your thoughts on M&A just because you guys are always cultivating, but your leverage ratio may be quite a bit higher than where you guys would like to be post the deal?

Andrew P. Hider

CEO & Director

Yes. David, I'll start here. First and foremost, we've just added two strategic acquisitions to the business. I'm very pleased with the addition of Paxiom and Heidolph, and we're actively engaged to integrate those

businesses and really help them achieve their aspirations. And early indications are very positive with both businesses. So pleased with the closing of those two, and we've also added UReality. And so nice additions within the quarter.

If we look at our funnel today, our funnel remains healthy. And as I said in my prepared remarks, oftentimes, cultivation takes time. And we will continue to cultivate and while we're in the process of going through that, we're going to look to delever and really build up our ability to execute for the future. So we'll continue to cultivate. Our funnel remains healthy, and we'll be balanced in the approach, but we're pleased with the additions, and we're going to execute the plan.

David Ocampo

Cormark Securities Inc., Research Division

Okay. That sounds good. And then just the last one here for Ryan. I mean, we haven't really seen these large Life Science wins in the past. Maybe you can walk us through how the revenue recognition process works as it relates to -- as things get booked into the income statement here?

Ryan McLeod

Chief Financial Officer

Yes. So I'll try to walk through this, but feel free to follow up. When we talk about large projects, they typically go through three phases. There's the design phase, there's the assembly phase and then they get delivered and commissioned on site. Typically, the initial design phases are lower revenue recognition periods and that just reflects we have less cost going into the projects.

As we get into assembly, we start bringing materials, we have our workforce deployed in factory. That's the highest revenue recognition period and then commissioning, again, is typically a lower period when it's being installed, commissioned, validated on site.

The duration varies. Large projects typically are over a year. In some cases, they can be up to 24 months. In Life Sciences, I would say typically in the large size, they're 12 to 18 months in duration. And again, from a revenue recognition kind of follow that normal distribution pattern.

And so in the quarter, if I look across our top 10 orders, there was a lot of Life Sciences in that, radio pharma, drug delivery, contact lenses, wearables. There's also consumer, there's nuclear in the top 10. So we're very pleased with the bookings. As I said, we have record order backlog in Life Sciences and are very encouraged by the funnel activity in that vertical.

David Ocampo

Cormark Securities Inc., Research Division

Okay. That's helpful. I'll follow up off-line to make sure I have everything -- all my ducks in order in terms of modeling this out.

Operator

Our next question comes from the line of Patrick Sullivan with TD Cowen.

Patrick Sullivan

TD Cowen, Research Division

I guess Life Sciences is currently over 60% of the backlog with everything else in that 6% to 12% range. Do you have an ideal target mix for that? I guess would you forecast Food and Beverage to take over like a comfortable #2 position? Do you have any guideposts for the range you'd like to see there?

Andrew P. Hider

CEO & Director

So not specific in guidepost. What I can tell you, if you've looked at M&A and if you've looked at our focus on innovation and product launch, Life Sciences is a key area of focus for our business. And we're very

pleased with the progress. Our biggest backlog in history. And across the board minus Transportation above a book-to-bill ratio of 1.0.

With the addition of Paxiom to our Food and Beverage space, really excited about the potential. And Paxiom came in the food space, but we're also seeing a lot of synergy potential in our Life Sciences area, and our synergy funnel continues to grow in that space.

So do not put parameters on it. What I can tell you is our areas that are going to make up, call it, the ATS as we move forward is largest can be Life Sciences, Food. Nuclear continues to be an attractive piece of the business as well, and in niche application, our Consumer Products also continues to do well. Transportation is going to be a small portion of the business.

Patrick Sullivan

TD Cowen, Research Division

Okay. Great. And then I guess, Andrew has mentioned on a recent webcast that Comecer, you've roughly doubled the top line of the business since it was acquired. According to certain forecast, radiopharma submarkets are expected to grow at pretty strong CAGRs out to 2028. I guess where does ATS see the greatest opportunity for that business? Is it the diagnostics versus therapeutics? And I guess, are you guys in a position to outpace some of those industry expected growth rates?

Andrew P. Hider

CEO & Director

So first of all, we actually opportunity in both areas. And boy, Comecer continue to execute both operationally and commercially. I'm very pleased with the progress. This team came on, they really aligned around the ABM and taking a hard look at how do they set their business up to drive expansion in their core markets. And so the market is an attractive space. The business executes and really drives high value for our customers.

And one of the most recent wins that we had is in the therapeutics area, and we had a large order from a customer. I think it was our single largest award within the quarter. And Comecer continues to bring high value in the space.

And not only that, I actually talked a bit about their focus on technology and MODUS being a new launch in their space. And so they're not only bringing value in their core. They're also innovating and designing and building out capability to really have higher value for customers as they grow and continue to launch exciting products within the cancer arena to fight and combat this area.

Patrick Sullivan

TD Cowen, Research Division

Okay. Great. If I could ask one more. So I think it's been said that recurring revenue for any given segment of the business can range from 25% to 35%. Are you able to share which segments kind of index higher or lower on that scale?

Andrew P. Hider

CEO & Director

So look, overall, I would say -- okay, let me walk through this one a little bit. First, I said between 25% and 35%, we're actually in the high end of that as a total enterprise. And we're pleased with the progress we've made.

Now we see actually a bit of a higher level, typically in Life Sciences, and we've added businesses around this. So think of Avidity where they're going to be 40-plus percent. And Heidolph is going to be a very high portion of that as well. And so we see continued ability to expand here. We are targeting to get to a number in the future at or above 40%.

That said, we've got some work to do. And I would say we're on the higher end of that 25% to 35% as a total corporation and we expect to continue our trajectory and launch solutions and capabilities in this area.

Operator

Our next question comes from the line of Maxim Sytchev with National Bank Financial.

Maxim Sytchev

National Bank Financial, Inc., Research Division

Maybe just thinking about the transportation market, a little bit sort of more removed dynamic, like in terms of the portfolio composition, kind of on a going-forward basis, do you think still that this is kind of a good market to be in? And what are your thoughts maybe as you think about especially with elections in the U.S. and I mean, arguably, EV market facing more pressure on what was known yesterday? So yes, maybe any thoughts there?

Andrew P. Hider

CEO & Director

Yes. So look, we have rightsized our business for the market dynamics. And we walked through that. Ryan kind of provided a bit more color on the reorganization and how we've really aligned this business for the market expectation. And we expect this to be a lower portion and Ryan walked through the numbers and it being roughly 10%. So net-net, we're going to continue to execute where we have high value for customers, but it will be a small portion of ATS into the future.

Maxim Sytchev

National Bank Financial, Inc., Research Division

Okay. But -- and I guess, at this point, again, as you think about the portfolio composition, I mean, are you okay with EV sort of having kind of a long-term option than anything else? Or what do you think sort of the focus on kind of health care, food, energy would potentially yield better returns ultimately for the shareholders?

Andrew P. Hider

CEO & Director

Yes. So if you look where our investment is and continues to be, it's a large portion of Life Sciences, food and other areas like nuclear for the business. And if you look at where we've shifted and we've had to rightsize this business. And so where we see opportunity, we'll continue to execute for the long-term market potential but it is a lower portion and we're being very kind of focused on higher value for customers, and that's where we'll drive that portion of the business, which is, call it, a smaller segment moving forward.

Maxim Sytchev

National Bank Financial, Inc., Research Division

Okay. Okay. Great. And maybe just one last question. In terms of Food and Beverage, so the decline year-on-year, I mean, I understand there's always sort of puts and takes, but wondering if you can provide a bit more color in terms of what's going on there? Because as you said, funnel seems to be pretty good in that space.

Andrew P. Hider

CEO & Director

So Max, just to walk through this. First and foremost, up 30% in backlog, pleased with that progress and pleased with this business. And just to walk you through, Q1, Q2 of last year, it's a bit of a comp discussion. And let me walk through that. So as we've talked in the past, there was a bit of an energy crisis as we all know in Europe.

Our CFT business has a very high energy efficiency product that we saw an increased level of demand, and we executed that demand in Q1 and Q2. So we should see this normalize in Q3 of this year. And so we're pleased with the progress of the business. They continue to execute. They've continued to really drive margin as a focus.

And if you look at CFT, they've been greater than 500 basis points on their bottom line, and there are solutions that they're launching and capabilities that they're launching. And I even highlighted one in the update around digital tomato and what that will bring as a new solution set for their markets. So really pleased with the progress here, and it is a bit of a comp for Q1, Q2, and Q3 should be more normalized.

Ryan McLeod

Chief Financial Officer

Yes, Max, the only thing -- yes, I just want to add on as well, so the energy-efficient solutions are primary processing. And we talked in the past, those are seasonal and require equipment deliveries around harvest seasons. And so what's in the backlog today is more on secondary processing, packaging and inspection solutions. So -- and we've talked about that being a focus to balance out the seasonality of that primary processing. So as Andrew said, we're quite pleased with the performance there.

Operator

Our next question comes from the line of Michael Glen with Raymond James.

Michael W. Glen

Raymond James Ltd., Research Division

So just to start on EV, can you indicate gross bookings in EV in the quarter? So excluding the \$150 million adjustment, what were the gross bookings for the period?

Ryan McLeod

Chief Financial Officer

They were in the range of \$30 million, just north of \$30 million.

Michael W. Glen

Raymond James Ltd., Research Division

Just north of \$30 million. So on new EV bookings, I understand in the past, there were different contract structures and payment structures. Are you telling customers now that you're not willing to participate in those types of terms and you've changed the terms of new contracts in that segment?

Ryan McLeod

Chief Financial Officer

So Michael, I mean our contracts are different customer to customer. But I would say we've got, across the board, strong contracts, good payment terms, certainly relative to what we used to see in the ICE market in Transportation that are more favorable from a working capital perspective. And so I would say the contract terms that we're working under are favorable.

Michael W. Glen

Raymond James Ltd., Research Division

Okay. Okay. And I'm just going to try to pull this out to you a bit more, but I mean, the contracts you're working under are favorable. Is that contract terms outside of the large customer where you're having the issue, like did they have different contract terms associated with them versus others in that backlog?

Ryan McLeod

Chief Financial Officer

So let me -- okay, so let me address that piece. So as we said, with respect to those large contracts the lines are producing where we've been able to complete commissioning procedures, they are producing at

or above contracted levels. And our disagreement with the customer is really around payment for work we've done.

I mean, I can't speak for the customer. But again, we know based on public reports information, let's say, in the market that North American automakers have announced delays or they've moved away from previously stated EV capacity targets. That said, we're continuing discussions. We're hopeful that will come to a resolution.

Michael W. Glen

Raymond James Ltd., Research Division

Okay. And then just on the Life Science bookings in the quarter, are you able to indicate what the organic -- because I know there's some M&A having an impact here, Avidity, Heidolph and maybe some other transactions. But what is the organic -- what was the organic bookings number in Life Sciences?

Ryan McLeod

Chief Financial Officer

Specifically, in the quarter, it's north of 20%.

Michael W. Glen

Raymond James Ltd., Research Division

20% growth organically?

Ryan McLeod

Chief Financial Officer

Correct. Yes, north of.

Michael W. Glen

Raymond James Ltd., Research Division

North of 20% growth. Okay. And then what -- like the margin profile of those contracts themselves, would that be -- would you -- could you say that, that is margin accretive to -- I know your business is under some margin pressure right now, but is that margin accretive to say the 15% target margin that you've spoken to in the past?

Ryan McLeod

Chief Financial Officer

So I'll speak to it from a gross margin perspective. And generally, Life Sciences is accretive at the gross margin level. And so what we -- the main impact, and we had a good, solid gross margin in the quarter, we're up about 123 basis points, I believe, year-over-year. What that reflects is that improvement in mix.

So more Life Sciences, more services. There is a benefit from acquisition. And then there's also some offset from underutilization in our Transportation businesses. So generally speaking, yes, Life Sciences is accretive. And the other impact on margins in the quarter, though, is really around operating leverage. And again, really driven by the lower revenues in our Transportation vertical. And again, we've taken action around that. But that's some of the dynamics around our margins.

Michael W. Glen

Raymond James Ltd., Research Division

Okay. Then I just want to dig into -- just one last question for me. Like what -- I think you addressed this earlier, but just to understand it more, what's left in the Transportation backlog right now that would still be -- I'm guessing, and I don't know completely, but that would still have a sizable portion. The 200 -- I think the \$207 million left over in Transportation backlog, like a chunk of that would still be related to the large customer where the dispute is?

Ryan McLeod

Chief Financial Officer

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There's some, but the majority is related to other customers, other scopes of work.

Operator

[Operator Instructions] Our next question comes from the line of Patrick Baumann with JPMorgan.

Patrick Michael Baumann

JPMorgan Chase & Co, Research Division

I was just wondering if we could put a finer point on margins in the second half. I think you previously indicated that the company would be able to get back to the first quarter level of around 15% EBITDA margin by the fourth quarter of the year. So is that still aligned with the expectation based on the costs you're taking out, based on how you see the revenue trajectory playing out in the second half?

Ryan McLeod

Chief Financial Officer

So Patrick, generally, yes. I mean, again, this is going to depend on progression around the rest of the business and bookings and things like that. But generally, yes, we continue to expect sequential improvement into the third and then into the fourth quarter.

Patrick Michael Baumann

JPMorgan Chase & Co, Research Division

Okay. And on the backlog removal, I was just wondering if this had any impact on the P&L? Like did you have to book any losses on work that had already been done? And then did you choose to remove it because of the challenges on cash collections with work already done for the customer? Or was this customer-driven, like a cancellation on their part? And then lastly on this, kind of when was it decided?

Ryan McLeod

Chief Financial Officer

So no impact on margins related to the removal of backlog. The contract has not been canceled, but it really reflects our expectation that it's not going to move forward. And as we talked about, that's based on activity in the market, also the other ongoing scopes of work with the customers. So in terms of timing, it's a recent development.

Operator

Seeing no further questions at this time, I will now turn the call back to Mr. Hider for closing comments.

Andrew P. Hider

CEO & Director

Great. Thank you, operator, and thank you, everyone, for joining us today. I look forward to speaking to you on our Q3 call in February. Stay safe, and goodbye for now.

Operator

This concludes today's conference call. Thank you all for your participation. You may now disconnect.

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