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Earnings Call

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Call Participants

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Raymond James Ltd., Research Division

Sabahat Khan

RBC Capital Markets, Research Division

Presentation

Operator

Welcome to the ATS Corporation Fourth Quarter Conference Call and Webcast. This call is being recorded on May 28, 2025, at 6:00 p.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 evening, 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 could 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 evening, everyone, and thank you for joining us. Today, ATS reported fourth quarter and full year results for fiscal 2025. As you know, we announced a negotiated settlement with our EV customer. It was important that we put this matter behind us to enable us to continue to execute on our growth strategy.

On that front, Q4 was the third highest bookings quarter in the company history and included the organic growth along with contributions from acquisitions. Our life sciences businesses demonstrated strength and market leadership, complemented by contributions from across ATS and other key market verticals. During the year, we welcomed Paxiom and Heidolph further expanding our products portfolio.

Fiscal '25 was not without its challenges, and the results reported today reflect the resilience of our teams, the breadth and depth of our capabilities across our vertical markets, and the value of the ATS business model.

This evening, I'll update you on our business and markets, including macroeconomic influences and Ryan will provide his financial report. Starting with our financial value drivers. Order bookings for the quarter were \$863 million, up 9% from the fourth quarter last year. Our growth was supported by diversified bookings across all of our markets. Bookings for the full year were \$3.3 billion, a record for ATS, setting us up well for fiscal '26. Q4 adjusted revenues were \$721 million, down 9% from Q4 last year.

For the full year, adjusted revenues were 12% lower year-over-year as a result of lower EV revenues as expected. Adjusted earnings from operations in Q4 were \$74 million revenues. And for the full year were \$283 million.

Moving to our outlook. Order backlog ended the quarter at approximately \$2.1 billion, the highest in the last 8 quarters. Our trailing 12-month book-to-bill ratio was 1.23:1, again, highlighting the importance of our entire portfolio of offerings across services, standard equipment and products as well as custom integration.

From a macro perspective, geopolitical and trade tensions are creating an uncertain environment. Although we are not immune to this uncertainty, we have not seen any material change in customer

behavior to date. It is possible that we could see impacts on demand in some areas of our business if uncertainty continues in the near to midterm.

That said, given our Q4 order bookings, we remain optimistic. ATS is well positioned in regulated markets with strategic customer relationships. Our global footprint gives us capacity to help our customers address their risks as well as our own. Further, our embedded ABM tools help our teams respond to changing requirements.

Expanding our market reach through our capabilities while growing recurring revenue is important for shareholder value creation. To that end, our teams are dedicated to delivering for customers globally and actively planning for and addressing any short-term disruptions. This includes further optimizing our global supply chain, strengthening regional capabilities and taking targeted price action where necessary to support margins while ensuring reliable delivery across customer programs.

Within life sciences, order backlog ended the quarter at \$1.2 billion with key wins across all of our major life sciences businesses, including diversification in bookings such as auto-injector assembly, radiopharma, wearables and other medical devices. Our life sciences opportunity funnel is strong, supported by market growth in key submarkets, including the demand for GLP-1 drugs, wearable devices for diabetes care, automated pharmacies and contact lenses and the ongoing need for solutions to support detection and treatment in pharma and radiopharma.

Our capabilities and deep understanding of the life sciences markets position us well to explore new areas to broaden our customer base. In the current environment, some customers are evaluating capital spending plans, particularly within the lab research space. But as I indicated, we have not seen a material shift or change at this time. In food and beverage, our funnel remains strong, and we ended the year with a backlog of \$258 million. The team is actively pursuing greater diversification to offset some seasonal variability in the CFT business with advancements into services and secondary processing as well as packaging, which is supported by the addition of Paxiom.

In energy, our funnel remains strong as the global nuclear industry experiences growth and transformation driven by increasing energy demands, advancements in nuclear technology and sustained government support. Near-term demand is driven by ongoing CANDU refurbishment projects, and we expect that longer-term demand will also come from new nuclear builds in both large-scale and small modular reactors. Our end-to-end strategic capabilities enable us to support customers across all phases from concept and design through to factory automation of modular assemblies and waste handling.

ATS is well positioned for sustained growth in these key energy markets. In consumer products, our funnel remains stable with attractive niche opportunities. Our capabilities in such areas as warehouse automation and packaging solutions delivered strength in bookings in the quarter. Within transportation, our funnel remains stable with smaller opportunities as expected, due to lower end market demand than previous years, particularly in the EV battery space. During the quarter, we received an additional order from an EV customer in Europe.

On after sales, we continue to make progress on our strategy, our evolving service plan offerings, including higher value services, and the expansion of digital tools are helping to drive greater customer adoption and retention. Our goal is to serve as a global partner for continuous productivity optimization across our customer base.

Globally, our ATS teams are aligned and have a deep understanding of where value can be driven for our customers with our digital solutions. Our strategy and ability to drive improved life cycle performance, asset utilization and overall operational efficiency through areas like our Connected Care Hub will allow us to help our customers reduce their enterprise risk over time.

On the ATS business model, we hosted our seventh annual President's Kaizen Events which included teams from across all ATS groups in major geographies. The teams brought focus to strategic areas, including resource planning and optimization, business simplification, product development, quotation processes and reimagining processes to drive greater efficiency in operations.

These events are a great demonstration of our team's collective drive or breakthrough change. The level of work completed in a single week is a testament to the evolution of our ABM culture over time. On M&A, we are making steady progress on cultivating strategic opportunities that align with our long-term growth priorities and enhance the value of our portfolio over time.

In the short term, we remain focused on returning leverage to targeted levels and on the continued integration of our recent acquisitions to maximize their long-term contributions to our business. On innovation, we are deploying capital and empowering our talent to create differentiated solutions that drive value for our customers.

Going into fiscal '26, we've identified opportunities to innovate in such areas as expanding the utilization of our Symphoni platform, incorporating more digital applications in our portfolio to drive further efficiency. For example, in our Digital Tomato solution for food and beverage markets, and adding additional functionality into our proprietary SuperTrak system.

In summary, our global businesses continue to demonstrate ongoing commitment to serving our customers supported by deep industry knowledge and experience. To that end, I want to congratulate 2 businesses on hitting significant milestones this past year. Comcer celebrated their 50th anniversary and CFT celebrated their 80th.

I'm also pleased to note that ATS was once again recognized by Canada's top 100 for being a leading employer in both the Waterloo region and Southwestern Ontario. Strong fourth quarter bookings, combined with a record order backlog provides us with good revenue visibility and a strong foundation for profitable growth heading into fiscal '26.

Our teams remain focused on driving improvements across all of our value drivers. As we enter fiscal '26, our opportunity funnel is well diversified, and we are confident in our ability to drive our ABM culture as our engaged and dedicated teams remain intensely focused on creating strong customer and long-term shareholder value. We're responding to the challenges in the macro environment with clear alignment across the leadership team and our individual businesses.

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

Ryan McLeod

Chief Financial Officer

Thank you, Andrew, and good evening, everyone. Before I review results, I'll provide a few comments on 2 specific nonrecurring items. First, our EV settlement and second income taxes. On the EV settlement, as we disclosed, we expect to receive USD 134.75 million or about CAD 194 million based on our Q4 ending exchange rate before the end of fiscal Q1. This settlement resulted in an after-tax impact of approximately CAD 129 million, which was reflected in our Q4 results.

The preliminary fourth quarter fiscal '25 results that we disclosed on May 23, including net income, earnings per share, EBIT and EBITDA are unchanged. However, in finalizing our results and in accordance with IFRS standards, rather than having the expense flow-through SG&A, you will see in our financial statements that we have recorded a reduction in revenues in the quarter of \$146.9 million, with the remainder of the settlement impact of \$24.2 million reflected in SG&A expenses.

This income statement classification differs from what we disclosed in our preliminary earnings release. However, as I noted, there is no change in net income. We are presenting an adjusted revenue measure to reflect this onetime event and have adjusted for the total P&L impact our adjusted earnings, consistent with what we previously disclosed.

Importantly, the settlement will reduce our net debt to adjusted EBITDA leverage by 0.5x or approximately half a turn, providing us with greater flexibility to continue to execute on our growth strategy, relative to a prolonged process where timing is hard to predict. Given the deteriorating market conditions in transportation and the added uncertainty in the market caused by tariffs, settling the matter at this time was a good outcome for ATS.

Separately, on taxes, in our Q4 results, we recognized tax assets related to a plan that will benefit our cash taxes and result in an expected effective tax rate in the mid-20% range going forward. We've adjusted for the nonrecurring impacts related to this plan in our adjusted EPS, which was a \$0.38 per share benefit to reflect normalized operations for the year.

Now moving on to Q4 operating results. Order bookings were \$863 million, an increase of 9% over Q4 last year and included 2.6% organic growth, a 4% contribution from acquisitions and a 2.5% positive impact from foreign exchange translation. At the end of Q4, the trailing 12-month book-to-bill ratio was 1.23:1 and was above 1 in all market verticals. For the year, order bookings grew 14.3% and included organic growth of 6.2%, a foreign exchange benefit of 1.9% and contributions from acquisitions of 6.2%. After adjusting for the revenue portion of the EV settlement, which adds back the \$146.9 million impact, revenues for the fourth quarter of fiscal '25 were \$721 million, down 8.9% compared to last year. Year-over-year organic growth in life sciences and consumer products, along with a 3.6% contribution from recent acquisitions provided some offset to lower transportation revenues. Notably, revenues increased sequentially by 10.6% as we continued to benefit from strong order bookings over the past several quarters.

Moving to earnings. Fourth quarter adjusted earnings from operations were \$74.3 million, a 23% decline from the prior year, primarily from lower revenue volumes, particularly in transportation. Excluding acquisition-related inventory fair value charges, gross margin for Q4 was 29%, a 90 basis point improvement from last year, driven by a more favorable mix, which included higher-margin programs. On SG&A, excluding acquisition-related amortization and transaction costs and the SG&A portion of the EV settlement, expenses in the fourth quarter totaled \$133.9 million, an \$11.2 million increase over the prior year, primarily due to SG&A from acquired companies in addition to increased employee costs and the impact of foreign exchange translation.

As always, we continue to work to enhance efficiency in both our existing operations and newly acquired entities through our disciplined integration process. Excluding the mark-to-market impact related to changes in our share price, stock-based compensation expense was \$1.1 million in Q4. Earnings per share were \$0.41 on an adjusted basis, down from last year, primarily due to the lower revenue volumes.

Turning to our outlook. We ended the fiscal year with an order backlog of approximately \$2.1 billion, and we expect Q1 revenues to be in the range of \$680 million to \$730 million. As a reminder, this assessment is updated every quarter taking into account revenue expectations from current order backlog and new orders booked and billed within the quarter. In the quarter, we incurred an additional \$3.5 million of restructuring costs related to the previously disclosed reorganization activities.

Expanding our operating margins remains an ongoing priority. In particular, as life sciences order bookings from the latter half of fiscal '25 moved to higher revenue-generating phases and as we benefit from the cost structure and volume alignment in our EV businesses, we expect to see improvement throughout fiscal '26.

Across our business, we continue to systematically use ABM tools to enhance our processes, streamline our supply chain and achieve further standardization. And we continue to invest in innovation and services. On tariffs, we're working to mitigate risks as they arise and where possible. Our global footprint and decentralized operating model, along with our proven ABM tools, provide us the flexibility required to address disruptions over the longer term.

Short-term costs have been manageable to date and we are staying close to our customers as the current environment continues to evolve. We're also actively working with our global supply base to mitigate challenges and flow of goods and manage potential cost increases.

Moving to the balance sheet. In Q4, cash flows from operating activities were \$39.3 million. Our noncash working capital as a percentage of revenue was 22.4%. Excluding the settlement receivable from the EV dispute, our noncash working capital was just over 15% and as we continue to progress across the rest of our businesses on working capital efficiency and moving back towards our target range.

During the quarter, we invested \$29 million in CapEx and intangible assets with an investment for the year of \$78.1 million. Our innovation efforts in critical growth areas remain a priority. For fiscal '26, we expect our CapEx and intangible investment to be in the range of \$80 million to \$100 million. Our leverage at the end of the quarter, our net debt to adjusted EBITDA ratio was 3.9x on a pro forma basis, which includes full year contributions from our most recent acquisitions.

As I noted, this will be [helped] by receipt of the EV settlement payment in Q1 of fiscal '26. We remain committed to bringing our leverage to our target range of 2 to 3x. For reference, early in Q1, we were active in our NCIB, acquiring 309,000 shares for approximately \$10 million. Share buyback remains an important and opportunistic element of our overall capital deployment strategy. That said, our primary capital allocation priorities remain a focus as we continue to invest internally on innovation and growth, while cultivating acquisition opportunities.

In summary, fourth quarter results were encouraging as we move into fiscal '26 with our goal of driving growth and margin expansion. For the year, despite challenges in fiscal '25 as a result of changes in demand in the North American EV markets, we had record order bookings that were diversified across our strategic global markets in regulated industries. Order backlog is strong and gives us good revenue and visibility in fiscal '26. We expect short-term margin pressures from large transportation revenues to continue to abate through our reorganization efforts as we drive improved volumes in transportation and growth in the rest of the business.

Looking ahead, we're committed to building on our positive momentum in fiscal '26. We remain focused on driving growth in our core markets, leveraging our acquisitions and executing on our value creation strategy.

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] Your first question comes from the line of Cherilyn Radbourne from TD Cowen.

Cherilyn Radbourne

TD Cowen, Research Division

First question, I guess, is as you look at the backlog and the underlying duration of it as well as what you're seeing and hearing from customers, how confident do you feel about returning to positive organic growth in fiscal '26?

Andrew P. Hider

CEO & Director

Yes. Cherilyn, short answer is very positive. And if you look at our trailing 12-month book-to-bill ratio, 1.23 really supports that alignment. If you look at all markets, all of our markets are above 1 and led by some key areas and key technologies. So when we look at the year, we are confident we'll be returning to growth. We're confident in the areas that we're supporting.

And to even go further on really substantiating that with the discussions, I've been out visiting customers as long as our global team. And where we see products that have alignment to strategic priorities for our customers, they're continuing to invest. So overall, I would say our view of the year is cautiously optimistic.

Ryan McLeod

Chief Financial Officer

And Cherilyn, maybe I'll just jump in with a couple of data points, some of which we covered in the prepared remarks. But the order backlog being up 19.3% does support growth, obviously. About 23% of that backlog does go beyond 1 year, which is fairly consistent with where we typically operate in terms of some of those longer-term programs.

But just to echo what Andrew said, the strength of our backlog does give us a lot of confidence in terms of organic growth in fiscal '26.

Cherilyn Radbourne

TD Cowen, Research Division

Okay. That's really helpful. And the midpoint in the range that you provided for fiscal Q1 would suggest that at the midpoint, EPS modestly. So that's nice to see. In terms of the internal control deficiency that was noted, can you talk about how that was identified and what's underway to address the issue. Was that related to the EV -- the accounting treatment of the EV settlement?

Ryan McLeod

Chief Financial Officer

So a couple of things. So it's identified through our normal course process. And as -- and I think you know this is our first year having adopted the SOX requirements, which are a little bit different, a little bit more rigorous than what we were previously operating under.

So our -- we go through a testing process and an assessment process, and there were certain process -- business processes, some of it related to what's called IP information prepared by [entity] which is effectively spreadsheets and some of the documentation around spreadsheet. So I think importantly, none of this had a -- as we stated in the disclosure, an impact on our financial -- our reported financial statements in current period, prior periods. And largely relates to documentation improvements that we need to make. And that's where our focus is on that as we go into fiscal '26.

Operator

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

Maxim Sytchev

National Bank Financial, Inc., Research Division

Andrew, maybe the first question for you. Do you mind in providing a bit of color on the composition of programs that exist within the health care backlog right now? I mean, one of the questions we often get from investors is how sustainable the GLP-1 sort of growth rate, I'm just curious to see around sort of the exposure there.

Andrew P. Hider

CEO & Director

Yes. So Max, to give you a little bit more color. I mean so we're certainly excited about our continued support on the GLP-1 space, and we have a diversified customer base within this area. I think right now, we're working with 8-plus customers and really aligning around their ability to meet the market demand and continued market demand.

And we do view this as mid -- short- to mid-term area of focus and sustained ability to grow. But additionally, if you step back, we're also in radiopharmaceuticals, which is identification and treatment of cancer. We're in wearable devices and medical devices, so specifically wearable devices in the treatment of diabetes. We're an automated pharmacy. We're in contact lenses. And so our view is as we look at the growth of the year and the potential for the year, there is, as I said earlier, a lot to be cautiously optimistic about.

And when I speak to customers, they're looking to further build out their product portfolios, and we're in many niche markets beyond those that I specified. And so I would say that my engagement with the customers have been aligned around that and have been aligned around our ability to support their growth needs.

Maxim Sytchev

National Bank Financial, Inc., Research Division

Okay. And then, Ryan, around working capital, I mean, correct me if I'm wrong but, historical transportation was more capital intensive than other buckets in the business. So now that, that part of the business has shrunk fairly significantly versus the rest. How should we think about that working capital intensity velocity of improvement? Because I mean, theoretically, that should get better faster? Or how should we think about this?

Ryan McLeod

Chief Financial Officer

Yes. So Max, excluding the remaining working capital that's on our balance sheet at Q4 tied to the EV settlement and dispute, we're just over the 15% target. So you're right, in terms of market verticals, commercial terms in transportation, typically are more working capital intensive.

So as that has become and will be a smaller part of our business, we do see a benefit to our working capital from that. There is an offset, though, and that's -- as we've expanded into more product-based businesses, so shorter cycle where we're carrying inventory, those businesses are more working capital intensive.

And so I think I've spoken through some of the acquisitions, in particular, Heidolph, Paxiom, Avidity, these are all 20%-plus working capital businesses. Now there's efficiency available in those, and it's primarily around inventories and being more efficient there. But all that to say, that does provide some offset to the lower transportation now. Our target is to be below 15%. I expect we'll get there this year. We'll see normal course variability in quarters. But that is our target. And as I said, we have a number of initiatives across the organization in place to help support that progress.

Maxim Sytchev

National Bank Financial, Inc., Research Division

Okay. So just one quick one around the tax rate expectation for 2026. How should we, I guess, model it on a prospective basis?

Ryan McLeod
Chief Financial Officer

Yes. So a couple of unusual items going through our taxes in this year, particularly in Q4. But on a normalized basis, we're in the mid-20% range. Normal course impacts from changes in jurisdictions where we operate. Our profitability in certain jurisdictions, but we're always looking at how our business is structured to globally really make sure we're maximizing that. .

We did implement a legal entity consolidation that's going to result in a cash tax benefit that we're going to see over the next several years. But that doesn't really have an impact on our effective tax rate. So the way to think about it is really in the mid-20% range and that 24% to 26%. But also realizing there's tax benefits from some of the planning and as well from the EV settlement that will help our cash taxes.

Operator

Your next question comes from the line of Sabahat Khan from RBC Capital Markets.

Sabahat Khan
RBC Capital Markets, Research Division

I guess, just following up on the line of questioning that Cheryl sort of started on the organic -- the revenue growth for this year. It looks like the revenue, I guess, you provided the range. In terms of the outlook for conversion? Like how much could that vary over the course of the year based on the type of work you've taken? Is this like a range that we should probably lean on as we think about the rest of fiscal '26 or does it even evolve based on the things you can see behind the scenes just based on the type of work that you might then take the rest of the year? Just trying to get an understanding with the bigger backlog, how we should think about the conversion over the future quarters as well?

Ryan McLeod
Chief Financial Officer

Yes. So a couple of things, Sab, and I'll step back a little bit. The conversion rate is going to change. That's driven just by material flows and different factors that largely impact our project revenues. But as I said, our backlog is up 19%. Several of those programs do go out beyond a year, roughly, as I said, 23%. But our expectation is we're going to drive growth this year.

And prior to the EV headwinds, we were at high single-digit organic growth rate. Keep in mind the global automation market, it's a mid-single-digit growth rate market. And our objective is to outpace that growth. And that's how we're thinking about fiscal '26.

Sabahat Khan
RBC Capital Markets, Research Division

Okay. Great. And then maybe just kind of on the margin side, with the EV business, I guess, much smaller as we look ahead over the course of fiscal '26. Just directionally, as you look ahead into your backlog and your expectations for revenue for the rest of the year. How are you thinking about margin progression? Should we assume that EV was a good portion of the drag over the last year? Just -- maybe just some high-level commentary on how -- what you're expecting for the rest of this year.

Ryan McLeod
Chief Financial Officer

Yes. So the transportation business was a drag in fiscal '25. It saw some improvement from the low point in Q2. It's still not operating in Q4 at the level that we expect, but it is improving, and we expect it to be profitable in fiscal '26. Similar to how we operate, we're targeting margin expansion. We have a number of initiatives in place relating to material productivity, labor productivity, pricing, other areas of efficiency in our operations.

That said, what we saw this quarter in terms of expansion -- sequential expansion, is probably a reasonable run rate. I've used the term modest previously. And that's what I would continue to expect. There's going to be variability. It's not going to be linear, but that's -- again, that's how we're thinking about the business this year in terms of margin expansion is progression throughout the year that we'll see in our -- with our EBIT and EBITDA margins.

Sabahat Khan

RBC Capital Markets, Research Division

Great. And then maybe just one last one, maybe a high-level one. As we think about tariffs, obviously, there is negatives from the perspective of actual tariffs. And then given where you are in sort of the industrial landscape, you could see some positive benefits from the reshoring efforts. If you can maybe just help frame for us the puts and the takes and what you're hearing from customers given all the headlines out there?

Andrew P. Hider

CEO & Director

Yes. So, Sabahat, look it's certainly challenging to navigate, and this is an evolving landscape. That said, look, our teams have been laser-focused on identifying risks and actively monitoring and mitigating where possible. And we've largely been able to do that. The impact on ATS has been, call it, minimal, and we are continuing to ensure that we can identify supply options, identify areas of control and areas to build. And so we continue to look across. Now, we do look at this market and tariffs being a potential benefit midterm. And the reason is ATS being a global player allows us to really utilize that global strength.

And so certain businesses are able to move their product and build in the region where needed. And we have the ability to support our customers on a global scale. So if this continues on, ATS, we do view is in a position of potential strength to support our customers through that.

Operator

[Operator Instructions] Your next question comes from the line of David Ocampo from Cormark Securities.

David Ocampo

Cormark Securities Inc., Research Division

Maybe the first one for Ryan. I guess, when we think about the inventory and the contract assets that were tied to your EV customer, it sounds like they were almost written off to 0. Is there any room for that to be redeployed to other areas, whether they were standard products and we can view that as potential upside? Or should we just view that as a 0 going forward?

Ryan McLeod

Chief Financial Officer

Well, contract assets is 0. Inventory we've written to what we expect to be able to utilize. But I wouldn't expect a benefit out of that going forward. There are materials that we that could be redeployed, but not a material benefit, no.

David Ocampo

Cormark Securities Inc., Research Division

Okay. And then just following up on Max's question or line of questioning as it relates to life sciences, I do expect that GLP-1 is just 1 end market that you guys serve. But I'm curious how you guys are thinking about both the positives and the negatives just as it relates to Lilly's positive trial results as it relates to ingestible GLP-1 drugs?

Andrew P. Hider

CEO & Director

Yes. So a couple of items. And to give you some context, and to add to my comment for Max, the novel drug approval, which is really an indication of future demands. The last couple of years, '23-'24 being

really above average on approval process sets the stage for future potential growth. And this year is really in line with last year as far as its run rate.

So overall, we do view this market as having continued ability to support our position as it sits today. As well as the drug -- as far as going to pill form, look, and you can read the articles as we do, and we have engagements with customers. There's certainly been a lot of discussion on this. We have seen also customers pull back on this based on trials.

And so our view is that certainly, that could be an option for the future. We're monitoring, assessing the customers we're engaged with are still investing in the area around the high potency ability around GLP-1 with an auto-injector, and that supports our ability to support our customers. As a reminder, we are in pharmacy automation, and we're in other areas. And so when we see new drug launches in new areas, we have the capability to support our customers on those new launches and new drug programs.

David Ocampo

Cormark Securities Inc., Research Division

Okay. That's very helpful and useful color. And then maybe just the last one. You guys talked about -- you guys always talk about cultivating M&A transactions. But when we think about your leverage even with all the moving parts and the collection of the cash, it does suggest that you guys are still going to be above 3x levered. So our larger acquisitions on pause until you can get below the 3x. And maybe, Ryan, you can refresh us on the maximum leverage ratio you guys are willing to go to for the right acquisition?

Andrew P. Hider

CEO & Director

So yes. So why don't I start, David? So look, with the settlement, it's about 0.5 a turn reduction. And it certainly gets us closer to our mark. All that to be said, if you look at the landscape for M&A today, seller expectation isn't changing. We're seeing overall volumes go down slightly as far as M&A goes. But our cultivation and our opportunity funnel continues to be strong.

And we do continue to cultivate those assets where -- when they become available, we're in a position to [pounce] and they take time. If you look at the 2 we did this past year with Paxiom and Heidolph, those are years in the making. And so as we look at our future we're cultivating assets that when we're in a position to move quickly, we can. And we are going to continue to look at areas that are high attractive for ATS and our shareholders.

Ryan McLeod

Chief Financial Officer

Yes. And I'll just add on. So as I said, we're targeting to get to that 2x to 3x range because that really gives us more flexibility relative to where we sit today, particularly as you think about larger opportunities. That said is -- and I'll repeat a little bit what Andrew said, we're always cultivating for the right opportunity. And we're going to look at various financing alternatives where there's a deal that makes sense from a value creation perspective. So we'll be disciplined in our approach, but we're going to look at it from a value perspective.

Operator

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

Michael W. Glen

Raymond James Ltd., Research Division

Just a couple of questions. So number one, what are you guys thinking about in terms of moving some of your product manufacturing to the U.S.? Do you have any CapEx plans? Is any of the CapEx this year associated with that? Or like just get some thoughts on your line of thinking for that.

Ryan McLeod

Chief Financial Officer

Yes, Michael. So nothing I would call out specifically that's a material move. As Andrew noted, we have capacity in the U.S. that for some of our products, some of what we do, it's fairly straightforward. Anything that's more significant from a CapEx standpoint, we're not at that point yet where we've made a commitment to move production.

That's going to be dependent on does it make sense in this environment in a potentially changing environment, and ultimately, what the global trade environment looks like in terms of tariffs and how that looks from a long-term perspective. So something we're monitoring, but not something that's part of our CapEx plans that I outlined.

Michael W. Glen

Raymond James Ltd., Research Division

And then with the EV situation seemingly cleaned up, Andrew, are you able to provide some commentary. Do you think that it is potentially the right time for you to divest the EV business?

Andrew P. Hider

CEO & Director

Yes. So look, this business has been really rightsized to reflect the current demand environment and as we see going forward, setting it up for success. And look, you have to remember that the work we do in this business is really wrapped around factory automation. And with this business being rightsized and also the potential for more reshoring of manufacturing there's opportunities we can pursue in factory automation that are outside of the segment. So we have good capabilities in the space. It's an area of business that we can create value for our customers and ultimately our shareholders. And so that's how we see it today.

Operator

Your next question comes from the line of Cheryl Radbourn from TD Cowen.

Cheryl Radbourn

TD Cowen, Research Division

Just a couple of other questions for me. With regard to the backlog by market, and you alluded to this a little bit in your prepared remarks, but we set new backlog record in consumer products and nuclear. So I was hoping for a bit more color on those 2 areas.

Andrew P. Hider

CEO & Director

Yes. So Cheryl, I'll take those separate. So in consumer products, we've continued to see support on our niche solution for the warehouse automation space. And as a reminder, this solution for that area is really targeted around supporting this customer to meet their sustainability goals while improving their efficiency. And so while they're looking at their global footprint, we've actually moved -- we've had the ability to move this product to be built in region for their usage.

So we like the ability to support. It is a niche provider in that area and one that we like as far as not only upfront CapEx, but then -- and then supporting from a services and capability standpoint.

As far as nuclear, look, nuclear, if you think about it, I'm going to break it down into 4 areas. And our largest area is CANDU reactors. And think of the refurbishment, we've talked about that in the past. The Bruce Power work that we've done and continue to do. We've seen CANDU reactors continue to have a long life and one that ATS has a lead niche position in. There's also traditional reactors, which are going to go through a decommissioning process, and we continue to see opportunity there.

There's a small module reactor portion, and I've walked through this a little bit in the past, but as a reminder, we think this is about a 5-plus year potential. That said, we're working with some of the key players around enabling and getting to that mark because the opportunity exists and they're really aligning around enabling this as a solution set as clean energy to support the increased energy demand.

And then lastly, and we're seeing more increase in this is nuclear fuel, and they support around the ability to bring more nuclear fuel into the market. And so we've actually started to win work in this space to support that and support the ability to get more fuel into the market. So look, we're a niche player. We like our position. We like the growth potential in this area. And if we look at the trailing 12-month book-to-bill ratio in energy, it certainly supported a continued area of growth.

Cherilyn Radbourne

TD Cowen, Research Division

Great. And then last one for me. Just as you think about how to protect yourselves in light of a changing tariff backdrop and the potential for related inflation. Are there any changes that you've made or contemplated to the terms of your contracts in that regard?

Ryan McLeod

Chief Financial Officer

So our contracts actually protect us fairly well from this situation. So certainly, as we're getting into new contracts, it's a point of discussion, but not an area that we're seeing a significant challenge from. And I mentioned from a pricing standpoint that we are addressing it. Some of that is on the product side, how we price, but also when there are changes, those do get -- or tariffs impacts.

Those do get passed on to customers typically. I think more of the work is -- or a lot of the work rather is happening on the supply chain side. And we touched on this a little bit, but it's localizing and as much as we can our supply chain, working with our suppliers to do that. We're working very closely with our brokers, logistics advisers. We do in our Canadian operations a lot of what we do benefits from the USMCA where we sit and where our equipment qualifies under those agreements. So all that to say, we've been able to manage most of the impact and what we haven't, I think, as Andrew said, really not a material headwind for us.

Operator

And that concludes our question-and-answer session. I will now turn the call back over to Mr. Hider for closing remarks.

Andrew P. Hider

CEO & Director

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

Operator

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

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