ATS Automation Tooling Systems Inc.

Management's Discussion and Analysis

For the Quarter Ended June 30, 2019

TSX: ATA

This Management's Discussion and Analysis ("MD&A") for the three months ended June 30, 2019 (first quarter of fiscal 2020) is as of August 13, 2019 and provides information on the operating activities, performance and financial position of ATS Automation Tooling Systems Inc. ("ATS" or the "Company") and should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company for the first quarter of fiscal 2020, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are reported in Canadian dollars. The Company assumes that the reader of this MD&A has access to, and has read, the audited consolidated financial statements prepared in accordance with IFRS and the MD&A of the Company for the year ended March 31, 2019 (fiscal 2019), and, accordingly, the purpose of this document is to provide a fiscal 2020 first quarter update to the information contained in the fiscal 2019 MD&A. Additional information is contained in the Company's filings with Canadian securities regulators, including its Annual Information Form, found on SEDAR at www.sedar.com and on the Company's website at www.atsautomation.com.

Notice to reader: Non-IFRS measures and additional IFRS measures

Throughout this document, management uses certain non-IFRS measures to evaluate the performance of the Company. The terms "operating margin", "EBITDA", "EBITDA margin", "adjusted net income", "adjusted earnings from operations", "adjusted basic earnings per share", "non-cash working capital", "Order Bookings" and "Order Backlog" do not have any standardized meaning prescribed within IFRS and therefore may not be comparable to similar measures presented by other companies. Such measures should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. In addition, management uses "earnings from operations", which is an additional IFRS measure, to evaluate the performance of the Company. Earnings from operations is presented on the Company's consolidated statements of income as net income excluding income tax expense and net finance costs. Operating margin is an expression of the Company's earnings from operations as a percentage of revenues. EBITDA is defined as earnings from operations excluding depreciation and amortization (which includes amortization of intangible assets). EBITDA margin is an expression of the Company's EBITDA as a percentage of revenues. Adjusted earnings from operations is defined as earnings from operations before items excluded from management's internal analysis of operating results, such as amortization expense of acquisition-related intangible assets, acquisition-related transaction and integration costs, restructuring charges, and certain other adjustments which would be non-recurring in nature ("adjustment items"). Adjusted basic earnings per share is defined as adjusted net income on a basic per share basis, where adjusted net income is defined as adjusted earnings from operations less net finance costs and income tax expense, plus tax effects of adjustment items. Non-cash working capital is defined as the sum of accounts receivable, contract assets, inventories, deposits, prepaids and other assets, less accounts payable, accrued liabilities, provisions and contract liabilities. Order Bookings represent new orders for the supply of automation systems, services and products that management believes are firm. Order Backlog is the estimated unearned portion of revenues on customer contracts that are in process and have not been completed at the specified date.

Earnings from operations and EBITDA are used by the Company to evaluate the performance of its operations. Management believes that earnings from operations is an important indicator in measuring the performance of the Company's operations on a pre-tax basis and without consideration as to how the Company finances its operations. Management believes that EBITDA is an important indicator of the Company's ability to generate operating cash flows to fund continued investment in its operations. Management believes that adjusted earnings from operations and adjusted basic earnings per share (including adjusted net income) are important measures to increase comparability of performance between periods. The adjustment items used by management to arrive at these metrics are not considered to be indicative of the business' ongoing operating performance. Management uses the measure "non-cash working capital as a percentage of revenues" to evaluate the Company's management of its investment in non-cash working capital. Management calculates non-cash working capital as a percentage of revenues using period-end non-cash working capital divided by trailing two fiscal quarter revenues annualized. Order Bookings provide an indication of the Company's ability to secure new orders for work during a specified period, while Order Backlog provides a measure of the value of Order Bookings that have not been completed at a specified point in time. Both Order Bookings and Order Backlog are indicators of future revenues that the Company expects to generate based on contracts that management believes to be firm. Management believes that ATS shareholders and potential investors in ATS use these additional IFRS measures and non-IFRS financial measures in making investment decisions and measuring operational results.

A reconciliation of (i) earnings from operations and EBITDA to net income, and (ii) adjusted earnings from operations to earnings from operations, adjusted net income to net income and adjusted basic earnings per share to basic earnings per share, in each case for the three-month periods ended June 30, 2019 and July 1, 2018 is contained in this MD&A (see “Reconciliation of Non-IFRS Measures to IFRS Measures”). A reconciliation of Order Bookings and Order Backlog to total Company revenues for the three-month periods ending June 30, 2019 and July 1, 2018 is also contained in this MD&A (see “Order Backlog continuity”).

COMPANY PROFILE

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, pharmaceuticals, chemicals, electric vehicles, transportation, consumer products, electronics, food, beverage, energy, and oil and gas. Founded in 1978, ATS employs approximately 4,400 people at 23 manufacturing facilities and has over 50 offices in North America, Europe, Southeast Asia and China.

STRATEGY

To drive the creation of long-term sustainable shareholder value, the Company has developed a three-part value creation strategy: Build, Grow and Expand.

Build: To build on the Company’s foundation and drive performance improvements, management is focused on the advancement of the ATS Business Model (“ABM”), the pursuit and measurement of value drivers and key performance indicators, a rigorous strategic planning process, succession planning, talent management and employee engagement, and driving autonomy and accountability into its businesses.

Grow: To drive growth, management is focused on growing organically through the development and implementation of growth tools under the ABM, providing innovation and value to the Company’s customers and markets, and growing the Company’s recurring revenue.

Expand: To expand the Company’s reach, management is focused on the development of new markets and business platforms, expanding service offerings, investing in innovation and product development, and strategic and disciplined acquisitions that strengthen ATS.

The Company pursues these initiatives with a focus on strategic capital allocation in order to drive the creation of long-term sustainable shareholder value.

ATS Business Model

The ABM is a business management system that ATS has developed with the goal of enabling the Company to pursue its strategies, outpace its chosen markets, and drive year-over-year continuous improvement. The ABM brings focus to:

- **People:** developing, engaging and empowering ATS’ people to build the best team;
- **Process:** alignment of ATS people to implement and continuously improve robust and disciplined business processes throughout the organization; and
- **Performance:** consistently measuring performance in order to yield world-class performance for our customers and shareholders.

The ABM is ATS’ playbook, serving as the framework utilized by the Company to achieve its business goals and objectives through disciplined, continuous improvement. The ABM has been rolled out across ATS divisions globally, supported with extensive training in the use of key problem-solving tools, and applied through various projects to drive continuous improvement.

OVERVIEW – OPERATING RESULTS

Consolidated Revenues

(In millions of dollars)

Revenues by market	Three Months Ended June 30, 2019	Three Months Ended July 1, 2018
Life sciences	**$ 171.7**	$ 124.5
Transportation	**86.9**	72.3
Consumer products	**53.8**	66.3
Energy	**26.8**	36.9
Total revenues	**$ 339.2**	$ 300.0

Fiscal 2020 first quarter revenues were 13% higher than in the corresponding period a year ago and included $27.2 million of revenues earned by KMW and Comecer. Excluding KMW and Comecer, first quarter revenues were $312.0 million, a 4% increase compared to the corresponding period a year ago, primarily reflecting Order Backlog, which, excluding the impact of acquired Order Backlog, was 13% higher entering the first quarter of fiscal 2020 compared to a year ago. Revenues generated from services and construction contracts increased 17% and 6% respectively compared to the corresponding period a year ago.

By market, revenues generated in life sciences increased by 38% due to higher Order Backlog entering the first quarter of fiscal 2020, and revenues generated by Comecer. Revenues in the transportation market increased 20%, due to higher Order Backlog entering the first quarter of fiscal 2020, and revenues generated by KMW. Revenues from consumer products and energy markets decreased 19% and 27% respectively due to lower Order Backlog entering the first quarter of fiscal 2020.

Consolidated Operating Results

(In millions of dollars)

	Three Months Ended June 30, 2019	Three Months Ended July 1, 2018
Earnings from operations	**$ 28.6**	$ 27.0
Amortization of acquisition-related intangible assets	**9.4**	5.6
Adjusted earnings from operations[1]	**$ 38.0**	$ 32.6

[1] See "Notice to reader: Non-IFRS measures and additional IFRS measures."

	Three Months Ended June 30, 2019	Three Months Ended July 1, 2018
Earnings from operations	**$ 28.6**	$ 27.0
Depreciation and amortization	**18.6**	9.8
EBITDA[2]	**$ 47.2**	$ 36.8

[2] See "Notice to reader: Non-IFRS measures and additional IFRS measures."

Fiscal 2020 first quarter earnings from operations were $28.6 million (8% operating margin) compared to $27.0 million (9% operating margin) in the first quarter of fiscal 2019. First quarter fiscal 2020 earnings from operations included $9.4 million related to amortization of identifiable intangible assets recorded on business acquisitions, up from $5.6 million in the comparable period a year ago. The adoption of IFRS 16, effective April 1, 2019, impacted earnings positively by $0.9 million due to the implied finance costs recorded on lease obligations.

Excluding amortization of identifiable intangible assets recorded on business acquisitions in both quarters, first quarter fiscal 2020 adjusted earnings from operations were $38.0 million (11% margin), compared to adjusted earnings from operations of $32.6 million (11% margin) a year ago. First quarter fiscal 2020 adjusted earnings from operations reflected higher revenues and improved gross margin, partially offset by higher selling, general and administrative expenses.

Depreciation and amortization expense was $18.6 million in the first quarter of fiscal 2020, compared to $9.8 million a year ago. The increase primarily reflected incremental amortization of acquisition-related intangible assets due to the acquisitions of KMW and Comecer and incremental depreciation of right-of-use assets as a result of the adoption of IFRS 16.

EBITDA was $47.2 million (14% EBITDA margin) in the first quarter of fiscal 2020 compared to $36.8 million (12% EBITDA margin) in the first quarter of fiscal 2019. EBITDA growth reflected higher revenues, improved gross margin, and lower operating lease costs related to the adoption of IFRS 16, partially offset by higher selling, general and administrative expenses compared to a year ago.

Impact of Adoption of IFRS 16 - Leases

The nature of expenses related to identified lease arrangements changed as IFRS 16 replaced straight-line operating lease expense, with depreciation and interest expense relating to lease liabilities. In the first quarter of fiscal 2020, the adoption of IFRS 16 resulted in increased depreciation expenses related to right-of-use assets of $3.7 million with a corresponding decrease in operating lease costs which were recognized in cost of revenues and selling, general and administrative expenses. In addition, the adoption of IFRS 16 resulted in incremental interest expenses of $0.9 million with corresponding decreases in operating lease costs. The combined impact of these changes was to increase earnings from operations by $0.9 million and increase EBITDA by $4.6 million. The impact on net income was negligible. See "*Accounting Standards Adopted in the First Quarter of Fiscal 2020*."

Order Bookings by Quarter

First quarter fiscal 2020 Order Bookings were $423 million, 18% higher than first quarter fiscal 2019 Order Bookings. Organic growth in Order Bookings was 9% compared to the prior year, and contributions from acquired businesses KMW and Comecer accounted for 9% of the growth. By market, higher Order Bookings in the life sciences market primarily related to medical device programs, and Order Bookings contributed by Comecer. Higher Order Bookings from the transportation market primarily reflected several large programs in both North America and Europe. Order Bookings in the consumer products market were flat. Bookings in energy markets decreased due to the timing of customer decisions on various larger opportunities.

Order Backlog Continuity

(In millions of dollars)

	Three Months Ended June 30, 2019	Three Months Ended July 1, 2018
Opening Order Backlog	**$ 904**	$ 746
Revenues	**(339)**	(300)
Order Bookings	**423**	358
Order Backlog adjustments[1]	**(6)**	(15)
Total	**$ 982**	$ 789

[1] Order Backlog adjustments include foreign exchange adjustments and cancellations.

Order Backlog by Market

(In millions of dollars)

As at	**June 30, 2019**	July 1, 2018
Life sciences	**$ 549**	$ 389
Transportation	**275**	185
Consumer products	**78**	93
Energy	**80**	122
Total	**$ 982**	$ 789

At June 30, 2019, Order Backlog was $982 million, 24% higher than at July 1, 2018. Order Backlog growth was primarily driven by higher Order Bookings in the life sciences and transportation markets, and Order Backlog from acquired businesses.

Outlook

The Company's Order Bookings are generally variable and sensitive to changes in the major economies the Company serves including the U.S., Canada, Europe and Asia. The global economic environment has shown recent signs of slowing growth and geopolitical risks remain. Ongoing trade negotiations and disputes between various jurisdictions in which the Company does business may impact its future sales and operations. Management will continue to closely monitor ongoing global trade discussions which could impact the Company and identify mitigation opportunities.

Funnel activity (which includes customer requests for proposal and ATS identified customer opportunities) in life sciences remains strong, and the addition of Comecer has strengthened ATS' customer offerings in both pharmaceuticals and radiopharmaceuticals. Opportunities related to electric vehicles are significant; however, customers are cautious in their approach to capital investment. Funnel activity in energy is variable and this market provides niche opportunities for ATS. Funnel activity in the consumer products market remains low relative to other customer markets. Overall, the Company's funnel remains significant; however, conversion of opportunities into Order Bookings is variable. The Company expects its Order Backlog of $982 million at the end of the first quarter of fiscal 2020 to partially mitigate the impact of volatile Order Bookings on revenues in the short term.

The Company's sales organization continues to work to engage customers on enterprise-type solutions. Enterprise orders are expected to provide ATS with more strategic customer relationships, better program control and workload predictability and less short-term sensitivity to macroeconomic forces. This approach to 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 composition of the Company's Order Backlog changed in fiscal 2019, with the addition of several large, enterprise programs that the Company won. These enterprise programs have longer periods of performance and therefore longer revenue recognition cycles. In the second quarter of fiscal 2020, management expects the conversion of Order Backlog to revenues to be in the 30% to 35% range.

The services strategy is expected to add incremental revenues over time as the attach rate of services' contracts on new equipment increases and as the penetration of the installed base improves. The Company is working to grow 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 but may not fully offset capital spending volatility.

The initial roll-out of the ABM has been completed, which included Company-wide training and deployment of tools to standardize problem solving and continuous improvement processes. As the initial ABM tools are implemented, management will deploy additional tools as part of the ongoing advancement of the ABM, with the goal of driving growth and continuous, sustained performance improvements across the Company. Management expects that the ABM will provide the Company with a long-term competitive advantage in delivering value to its customers and shareholders.

The Company is pursuing several initiatives with the goal of expanding its adjusted earnings from operations margin over the long-term including: growing the Company's higher margin after-sales service business; improving global supply chain management; increasing the use of standardized platforms and technologies; growing revenues while leveraging the Company's current cost structure; and the ongoing development and adoption of the ABM.

Over the long term, the Company generally expects to continue increasing its overall investment in non-cash working capital to support the growth of its business, with fluctuations 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 10% although from time to time it could reach up to 15% or greater due to normal volatility associated with the Company's project-based business.

In order to increase capacity, the Company expects to increase its investment in capital assets and intangible assets to approximately $60 million in fiscal 2020 to fund planned expansions at several facilities. The actual investment will depend upon timing of the expansions.

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 to fund strategic investment plans including some potential acquisitions. Significant acquisitions could result in additional debt or equity financing requirements.

CONSOLIDATED RESULTS

(In millions of dollars, except per share data)

	Three Months Ended June 30, 2019	Three Months Ended July 1, 2018
Revenues	**$ 339.2**	$ 300.0
Cost of revenues	**247.7**	222.1
Selling, general and administrative	**59.3**	47.5
Stock-based compensation	**3.6**	3.4
Earnings from operations	**$ 28.6**	$ 27.0
Net finance costs	**$ 7.1**	$ 5.2
Provision for income taxes	**5.1**	5.1
Net income	**$ 16.4**	$ 16.7
Basic and diluted earnings per share	**$ 0.18**	$ 0.18

Revenues. At $339.2 million, consolidated revenues for the first quarter of fiscal 2020 were $39.2 million, or 13% higher than in the corresponding period a year ago (see “Overview – operating results”).

Cost of revenues. At $247.7 million, first quarter fiscal 2020 cost of revenues increased compared to the corresponding period a year ago by $25.6 million, or 12% primarily due to higher revenues. First quarter fiscal 2020 gross margin was 27% compared to 26% in the corresponding period a year ago, due primarily to improved program execution, and operational utilization.

Selling, general and administrative (“SG&A”) expenses. SG&A expenses for the first quarter of fiscal 2020 were $59.3 million, which included $9.4 million of amortization costs related to the amortization of identifiable intangible assets recorded on business acquisitions. Excluding these costs, SG&A expenses were $49.9 million in the first quarter of fiscal 2020. Comparably, SG&A expenses for the first quarter of fiscal 2019 were $41.9 million, which excluded $5.6 million of amortization costs related to the amortization of identifiable intangible assets recorded on business acquisitions. Higher SG&A expenses in the first quarter of fiscal 2020 primarily reflected the addition of KMW and Comecer, and increased sales-related expenses.

Stock-based compensation. Stock-based compensation expense amounted to $3.6 million in the first quarter of fiscal 2020 compared to $3.4 million in the corresponding period a year ago.

Earnings from operations. For the three-month period ended June 30, 2019, earnings from operations were $28.6 million (8% operating margin), compared to earnings from operations of $27.0 million (9% operating margin) in the corresponding period a year ago. Excluding the impact of adoption of IFRS 16, earnings from operations were $27.7 million (8% operating margin) (see “Overview – operating results”).

Net finance costs. Net finance costs were $7.1 million in the first quarter of fiscal 2020, compared to $5.2 million a year ago. The increase was primarily due to additional interest expense recorded on lease liabilities due to the adoption of IFRS 16, and lower interest income compared to the corresponding period a year ago.

Income tax provision. For the three months ended June 30, 2019, the Company’s effective income tax rate of 23%, differed from the combined Canadian basic federal and provincial income tax rate of 27% primarily due to income earned in certain jurisdictions with different statutory tax rates. The Company expects its effective tax rate to remain in the range of 25%.

Net income. Fiscal 2020 first quarter net income was $16.4 million (18 cents per share basic and diluted) compared to $16.7 million (18 cents per share basic and diluted) for the first quarter of fiscal 2019. Adjusted basic earnings per share were 25 cents in the first quarter of fiscal 2020 compared to 22 cents in the first quarter of fiscal 2019 (see “Reconciliation of non-IFRS measures to IFRS measures”).

Reconciliation of Non-IFRS Measures to IFRS Measures
(In millions of dollars, except per share data)

The following table reconciles EBITDA to the most directly comparable IFRS measure (net income):

	Three Months Ended June 30, 2019	Three Months Ended July 1, 2018
EBITDA	**$ 47.2**	$ 36.8
Less: depreciation and amortization expense	**18.6**	9.8
Earnings from operations	**$ 28.6**	$ 27.0
Less: net finance costs	**7.1**	5.2
Provision for income taxes	**5.1**	5.1
Net income	**$ 16.4**	$ 16.7

The following table reconciles adjusted earnings from operations and adjusted basic earnings per share to the most directly comparable IFRS measure (net income and basic earnings per share):

	Three Months Ended June 30, 2019			Three Months Ended June 1, 2018		
	IFRS	**Adjustments**	**Adjusted (non-IFRS)**	IFRS	Adjustments	Adjusted (non-IFRS)
Earnings from operations	**$ 28.6**	**$ —**	**$ 28.6**	$ 27.0	$ —	$ 27.0
Amortization of acquisition-related intangible assets	**—**	**9.4**	**9.4**	—	5.6	5.6
	$ 28.6	**$ 9.4**	**$ 38.0**	$ 27.0	$ 5.6	$ 32.6
Less: net finance costs	**$ 7.1**	**$ —**	**$ 7.1**	$ 5.2	$ —	$ 5.2
Income before income taxes	**$ 21.5**	**$ 9.4**	**$ 30.9**	$ 21.8	$ 5.6	$ 27.4
Provision for income taxes	**$ 5.1**	**$ —**	**$ 5.1**	$ 5.1	$ —	$ 5.1
Adjustment to provision for income taxes[1]	**—**	**2.5**	**2.5**	—	1.6	1.6
	$ 5.1	**$ 2.5**	**$ 7.6**	$ 5.1	$ 1.6	$ 6.7
Net income	**$ 16.4**	**$ 6.9**	**$ 23.3**	$ 16.7	$ 4.0	$ 20.7
Basic earnings per share	**$ 0.18**	**$ 0.07**	**$ 0.25**	$ 0.18	$ 0.04	$ 0.22

[1] Adjustments to provision for income taxes relate to the income tax effects of adjustment items that are excluded for the purposes of calculating non-IFRS based adjusted net income.

LIQUIDITY, CASH FLOW AND FINANCIAL RESOURCES
(In millions of dollars, except ratios)

As at	**June 30, 2019**	March 31, 2019
Cash and cash equivalents	**$ 154.9**	$ 224.5
Debt-to-equity ratio[1]	**0.54:1**	0.48:1

[1] Debt is calculated as bank indebtedness, long-term debt, and effective from April 1, 2019 lease liabilities. Equity is calculated as total equity less accumulated other comprehensive income.

For the three months ended	**June 30, 2019**	July 1, 2018
Cash flows provided (used) in operating activities	**$ (40.0)**	$ (0.4)

At June 30, 2019, the Company had cash and cash equivalents of $154.9 million compared to $224.5 million at March 31, 2019. At June 30, 2019, the Company's debt-to-total equity ratio was 0.54:1 and reflected increased lease liabilities due to the adoption of IFRS 16.

In the first quarter of fiscal 2020, cash flows used in operating activities were $40.0 million ($0.4 million used in operating activities in the corresponding period a year ago). The decrease in operating cash flows related primarily to the timing of investments in non-cash working capital in certain customer programs.

In the first quarter of fiscal 2020, the Company's investment in non-cash working capital increased by $87.2 million from March 31, 2019. At June 30, 2019, accounts receivable increased by 13%, or $28.5 million, driven by the timing of billings in certain customer contracts. Net contracts in progress increased 28%, or $14.6 million, compared to March 31, 2019. The Company actively manages its accounts receivable and net contract in progress balances through billing terms on long-term contracts, collection efforts and supplier payment terms. Inventories increased 10%, or $6.8 million, primarily due to the timing of inventory purchases. Deposits and prepaid assets increased 13%, or $3.8 million, compared to March 31, 2019 due to the timing of program execution. Accounts payable and accrued liabilities decreased 8%, or $21.8 million, compared to March 31, 2019. Provisions decreased 1%, or $0.2 million, compared to March 31, 2019.

Capital expenditures totalled $6.4 million in the first quarter of fiscal 2020, primarily related to the acquisition of computer hardware, office equipment, and the improvement and expansion of certain manufacturing facilities.

Intangible assets totalled $2.9 million for the first three months of fiscal 2020, primarily related to computer software and various internal development projects.

In the first quarter of fiscal 2020, the Company had $623.9 million of unutilized multipurpose credit, including letters of credit, available under existing credit facilities and an additional $23.3 million available under letter of credit facilities.

On July 28, 2017, the Company amended its senior secured credit facility to extend the agreement by three years to mature on August 29, 2021 (the “Credit Facility”). The Credit Facility provides a committed revolving credit facility of $750.0 million. The Credit Facility is secured by the Company’s assets, including certain real estate in North America and a pledge of shares of certain of the Company’s subsidiaries. Certain of the Company’s subsidiaries also provide guarantees under the Credit Facility. At June 30, 2019, the Company had utilized $142.1 million under the Credit Facility, by way of letters of credit (March 31, 2019 - $134.3 million).

The Credit Facility is available in Canadian dollars by way of prime rate advances and/or bankers’ acceptances, in U.S. dollars by way of base rate advances and/or LIBOR advances, in Swiss francs, Euros and British pounds sterling by way of LIBOR advances and by way of letters of credit for certain purposes in Canadian dollars, U.S. dollars and Euros. The interest rates applicable to the Credit Facility are determined based on a net debt-to-EBITDA ratio as defined in the Credit Facility. For prime rate advances and base rate advances, the interest rate is equal to the bank’s prime rate or the bank’s U.S. dollar base rate in Canada, respectively, plus a margin ranging from 0.45% to 2.00%. For bankers’ acceptances and LIBOR advances, the interest rate is equal to the bankers’ acceptance fee or LIBOR, respectively, plus a margin that varies from 1.45% to 3.00%. The Company pays a fee for usage of financial letters of credit that ranges from 1.45% to 3.00%, and a fee for usage of non-financial letters of credit that ranges from 0.97% to 2.00%. The Company pays a standby fee on the unadvanced portions of the amounts available for advance or draw-down under the Credit Facility at rates ranging from 0.29% to 0.68%.

The Credit Facility is subject to financial covenants including a net debt-to-EBITDA test and an interest coverage test. Under the terms of the Credit Facility, the Company is restricted from encumbering any assets with certain permitted exceptions. The Credit Facility also limits advances to subsidiaries and partially restricts the Company from repurchasing its common shares and paying dividends. At June 30, 2019, all of the covenants were met.

The Company has additional credit facilities available of $21.2 million (3.9 million Euros, $10.0 million U.S., 50.0 million Thai Baht and 1.5 million Czech Koruna). The total amount outstanding on these facilities at June 30, 2019 was $4.5 million, of which $2.7 million was classified as bank indebtedness (March 31, 2019 - $2.0 million) and $1.7 million was classified as long-term debt (March 31, 2019 - $18.6 million). The interest rates applicable to the credit facilities range from 0.60% to 8.25% per annum. A portion of the long-term debt is secured by certain assets of the Company.

The Company’s U.S. $250 million aggregate principal amount of senior notes (the “Senior Notes”) are unsecured, were issued at par, bear interest at a rate of 6.50% per annum and mature on June 15, 2023. The Company may redeem the Senior Notes, in whole at any time or in part, from time to time, at specified redemption prices and subject to certain conditions required by the Senior Notes. If the Company experiences a change of control, the Company may be required to repurchase the Senior Notes, in whole or in part, at a purchase price equal to 101% of the aggregate principal amount of the Senior Notes, plus accrued and unpaid interest, if any, to, but not including, the redemption date. The Senior Notes contain customary covenants that restrict, subject to certain exceptions and thresholds, some of the activities of the Company and its subsidiaries, including the Company’s ability to dispose of assets, incur additional debt, pay dividends, create liens, make investments, and engage in specified transactions with affiliates. At June 30, 2019, all of the covenants were met. Subject to certain exceptions, the Senior Notes are guaranteed by each of the subsidiaries of the Company that is a borrower or has guaranteed obligations under the Credit Facility. Transaction fees of $7.2 million were deferred and are being amortized over the seven-year term of the Senior Notes.

Contractual Obligations
(In millions of dollars)

The Company's minimum purchase obligations are as follows:		
Less than one year	$	137.2
One – two years		2.3
Two – three years		1.8
Three – four years		0.2
Four – five years		0.2
	$	141.7

The Company's off-balance sheet arrangements consist of purchase obligations which consist primarily of commitments for material purchases, which have been entered into in the normal course of business.

In accordance with industry practice, the Company is liable to customers for obligations relating to contract completion and timely delivery. In the normal conduct of its operations, the Company may provide letters of credit as security for advances received from customers pending delivery and contract performance. In addition, the Company provides letters of credit for post-retirement obligations and may provide letters of credit as security on equipment under lease and on order. At June 30, 2019, the total value of outstanding letters of credit was approximately $207.2 million (March 31, 2019 - $203.3 million).

In the normal course of operations, the Company is party to a number of lawsuits, claims and contingencies. Although it is possible that liabilities may be incurred in instances for which no accruals have been made, the Company does not believe that the ultimate outcome of these matters will have a material impact on its consolidated financial position.

The Company is exposed to credit risk on derivative financial instruments arising from the potential for counterparties to default on their contractual obligations to the Company. The Company minimizes this risk by limiting counterparties to major financial institutions and monitoring their creditworthiness. The Company's credit exposure to forward foreign exchange contracts is the current replacement value of contracts that are in a gain position. The Company is also exposed to credit risk from its customers. Substantially all of the Company's trade accounts receivable are due from customers in a variety of industries and, as such, are subject to normal credit risks from their respective industries. The Company regularly monitors customers for changes in credit risk. The Company does not believe that any single market or geographic region represents significant credit risk. Credit risk concentration, with respect to trade receivables, is mitigated as the Company primarily serves large, multinational customers and obtains receivables insurance in certain instances.

During the first three months of fiscal 2020, 69,977 stock options were exercised. At August 13, 2019, the total number of shares outstanding was 91,997,798, and there were 1,619,043 stock options outstanding to acquire common shares of the Company.

NORMAL COURSE ISSUER BID
On December 3, 2018, the Company announced that the Toronto Stock Exchange ("TSX") had accepted a notice filed by the Company of its intention to make a normal course issuer bid ("NCIB"). Under the NCIB, ATS has the ability to purchase for cancellation up to a maximum of 3,000,000 common shares, representing approximately 3.2% of the 94,139,097 common shares that were issued and outstanding as of November 16, 2018. On February 6, 2019, ATS announced the TSX's approval of its amended notice to increase the maximum number of shares that may be purchased under the NCIB to 6,366,405 common shares, representing 10% of the "public float" (as defined by the TSX and calculated as of November 16, 2018), effective February 11, 2019.

Some purchases under the NCIB may be made pursuant to an automatic purchase plan between ATS and its broker. This plan enables the purchase of up to 3,000,000 ATS common shares when ATS would not ordinarily be active in the market due to internal trading blackout periods, insider trading rules, or otherwise.

As at June 30, 2019, the Company had purchased 2,509,120 common shares for $39.3 million under the NCIB. The weighted average price per share repurchased was $15.65. ATS security holders may obtain a copy of the notice, without charge, upon request from the Secretary of the Company.

RELATED PARTY TRANSACTIONS

The Company has an agreement with a shareholder, Mason Capital Management, LLC ("Mason Capital"), pursuant to which Mason Capital has agreed to provide ATS with ongoing strategic and capital markets advisory services for an annual fee of U.S. $0.5 million. As part of the agreement, a member of the Company's Board of Directors who is associated with Mason Capital has waived any fees to which he may have otherwise been entitled for serving as a member of the Board of Directors or as a member of any committee of the Board of Directors.

There were no other significant related party transactions during the first three months of fiscal 2020.

FOREIGN EXCHANGE

The Company is exposed to foreign exchange risk as a result of transactions in currencies other than its functional currency of the Canadian dollar, through borrowings made by the Company in currencies other than its functional currency and through its investments in its foreign-based subsidiaries.

The Company's Canadian operations generate significant revenues in major foreign currencies, primarily U.S. dollars, which exceed the natural hedge provided by purchases of goods and services in those currencies. In order to manage a portion of this foreign currency exposure, the Company has entered into forward foreign exchange contracts. The timing and amount of these forward foreign exchange contract requirements are estimated based on existing customer contracts on hand or anticipated, current conditions in the Company's markets and the Company's past experience. Certain of the Company's foreign subsidiaries will also enter into forward foreign exchange contracts to hedge identified balance sheet, revenue and purchase exposures. The Company's forward foreign exchange contract hedging program is intended to mitigate movements in currency rates primarily over a four- to six-month period.

The Company uses cross-currency swaps as derivative financial instruments to hedge a portion of its foreign exchange risk related to its U.S.-dollar-denominated Senior Notes. On March 29, 2016, the Company entered into a cross-currency interest rate swap instrument to swap U.S. $150.0 million into Canadian dollars. The Company will receive interest of 6.50% U.S. per annum and pay interest of 6.501% Canadian. The terms of the hedging relationship will end on June 15, 2023.

The Company manages foreign exchange risk on its Euro-denominated net investments. The Company uses cross-currency swaps as derivative financial instruments to hedge a portion of the foreign exchange risk related to its Euro-denominated net investment. On March 29, 2016, the Company entered into a cross-currency interest rate swap instrument to swap 134.1 million Euros into Canadian dollars. The Company will receive interest of 6.501% Canadian per annum and pay interest of 5.094% Euros. The terms of the hedging relationship will end on June 15, 2023.

In addition, from time to time, the Company may hedge the foreign exchange risk arising from foreign currency debt, intercompany loans, net investments in foreign-based subsidiaries and committed acquisitions through the use of forward foreign exchange contracts or other non-derivative financial instruments. The Company uses hedging as a risk management tool, not to speculate.

Period Average Exchange Rates in CDN$

	Three Months Ended		
	June 30, 2019	July 1, 2018	% change
U.S. Dollar	1.338	1.292	3.6%
Euro	1.503	1.536	(2.1%)

CONSOLIDATED QUARTERLY RESULTS

(In millions of dollars, except per share amounts)

	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Revenues	**$ 339.2**	$ 348.6	$ 321.4	$ 283.6	$ 300.0	$ 298.4	$ 277.6	$ 274.9
Earnings from operations	**$ 28.6**	$ 30.3	$ 38.5	$ 19.0	$ 27.0	$ 25.5	$ 14.8	$ 23.9
Adjusted earnings from operations	**$ 38.0**	$ 38.2	$ 46.7	$ 25.4	$ 32.6	$ 32.8	$ 29.3	$ 28.8
Net income	**$ 16.4**	$ 18.2	$ 25.1	$ 10.8	$ 16.7	$ 15.0	$ 6.9	$ 13.8
Basic and diluted earnings per share	**$ 0.18**	$ 0.20	$ 0.27	$ 0.11	$ 0.18	$ 0.16	$ 0.07	$ 0.15
Adjusted basic earnings per share	**$ 0.25**	$ 0.26	$ 0.33	$ 0.17	$ 0.22	$ 0.22	$ 0.18	$ 0.18
Order Bookings	**$ 423.0**	$ 298.0	$ 397.0	$ 355.0	$ 358.0	$ 348.0	$ 311.0	$ 257.0
Order Backlog	**$ 982.0**	$ 904.0	$ 926.0	$ 830.0	$ 789.0	$ 746.0	$ 689.0	$ 648.0

Interim financial results are not necessarily indicative of annual or longer-term results because many of the individual markets served by the Company tend to be cyclical in nature. Operating performance quarter to quarter may also be affected by the timing of revenue recognition on large programs in Order Backlog, which is impacted by such factors as customer delivery schedules, the timing of third-party content, and by the timing of acquisitions. General economic trends, product life cycles and product changes may impact revenues and operating performance. ATS typically experiences some seasonality in its second fiscal quarter with its Order Bookings, revenues and earnings from operations due to higher employee vacation time and summer plant shutdowns by its customers.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Company's consolidated financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the end of the reporting period. Uncertainty about these estimates, judgments and assumptions could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The Company based its assumptions on information available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the estimates as they occur. There have been no material changes to the critical accounting estimates described in the Company's 2019 MD&A.

ACCOUNTING STANDARD ADOPTED IN THE FIRST QUARTER OF FISCAL 2020

IFRS 16 – Leases

The Company adopted IFRS 16, Leases ("IFRS 16"), using the modified retrospective approach and accordingly the information presented for the 2019 reporting period has not been restated.

IFRS 16 introduced significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset ("ROU asset") and a lease liability at the lease commencement for all leases, except for short-term leases (lease terms of twelve months or less) and leases of low-value assets. In applying IFRS 16, the Company recognized ROU assets and lease liabilities in the interim condensed consolidated statement of financial position, initially measured at the present value of future lease payments; recognized depreciation of ROU assets and interest on lease liabilities in the interim consolidated statements of income; and separated the total amount of lease payments into a principal portion (presented in financing activities) and interest (presented within operating activities) in the consolidated statements of cash flows. For short-term leases and leases of low-value assets, the Company has elected not to recognize right-of-use assets and lease liabilities. The respective lease payments associated with these leases are recognized in the interim consolidated statements of income on a straight-line basis.

For leases that were classified as operating leases under IAS 17, lease liabilities at transition have been measured at the present value of remaining lease payments, discounted at the Company's incremental borrowing rate of 5% as at April 1, 2019.

The Company has used the following practical expedients permitted by the standard:

- Use a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Applied the standard only to contracts that were previously identified as leases under IAS 17 at the date of initial application;
- Applied the recognition exemptions for low-value leases and leases that end within twelve months at the date of application, and accounted for them as low-value and short-term leases respectively;
- Accounted for non-lease components and lease components as a single lease component;
- Relied on previous assessments of whether leases are onerous;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

On transition to IFRS 16 at April 1, 2019, the Company recognized ROU assets of $74.3 million, lease liabilities of $74.5 million, and reduced retained earnings by $0.2 million in the interim consolidated statement of financial position.

At March 31, 2019, the minimum operating lease obligations of the Company were $42.9 million, as presented in the audited consolidated financial statements. The difference between the lease liabilities of $74.5 million at April 1, 2019, and the minimum lease obligation disclosed at March 31, 2019 was mainly due to: (i) the impact of discounting the remaining lease payments; (ii) the exclusion of short-term leases, and leases of low-value; (iii) the inclusion of non-lease components in measuring the lease liability; and (iv) assumptions made on the probability of exercising early termination or renewal options.

For the three months ended June 30, 2019, the Company recognized expense related to short-term, and low-value leases of $1.0 million in cost of revenues, and $0.4 million in selling, general and administrative expenses in the consolidated statements of income.

The following accounting policy is applicable from April 1, 2019:

At the inception of a contract, the Company determines whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an underlying asset for a period of time in exchange for consideration. The Company recognizes an ROU asset and a lease liability on the date the leased asset is available for use by the Company (at the commencement of the lease).

Right-of-use assets
ROU assets are initially measured at cost, which is comprised of the initial amount of the lease liability, any initial direct costs incurred and an estimate of costs to dismantle, remove or restore the underlying asset or site on which it is located, less any lease payments made at or before the commencement date. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, a recognized ROU asset is depreciated using the straight-line method over the shorter of its estimated useful life or the lease term. The ROU asset may be adjusted for certain remeasurements of the lease liability and impairment losses.

Lease liabilities
The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily available. The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics. Lease payments include fixed payments less any lease incentives, and any variable lease payments where variability depends on an index or rate. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payment of penalties for termination of a lease. Each lease payment is allocated between the repayment of the principal portion of the lease liability and the interest portion. The finance cost is

charged to net finance costs in the interim consolidated statements of income over the lease period. Payments associated with short-term leases (lease term of 12 months or less) and leases of low-value assets are recognized on a straight-line basis as an expense in the interim consolidated statements of income as permitted by IFRS 16.

The carrying amount of the lease liability is remeasured if there is a modification resulting in a change in the lease term, a change in the future lease payments, or a change in the Company's estimate of whether it will exercise a purchase, extension or termination option. If the lease liability is remeasured, a corresponding adjustment is made to the ROU asset.

As a practical expedient, IFRS 16 permits a lessee to not separate non-lease components, but instead account for any lease and associated non-lease components as a single arrangement. The Company has applied this practical expedient.

Determining the lease term of contracts with renewal or termination options
The lease term includes the non-cancellable term of the lease including extension and termination options if the Company is reasonably certain to exercise the option. The Company applies judgement in evaluating whether it is reasonably certain to exercise the options. All relevant factors that create an economic incentive for it to exercise the renewal are considered. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option.

CONTROLS AND PROCEDURES

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of the Company are responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting for the Company. The control framework used in the design of disclosure controls and procedures and internal control over financial reporting is the "Internal Control – Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Management, including the CEO and CFO, does not expect that the Company's disclosure controls or internal controls over financial reporting will prevent or detect all errors and all fraud or will be effective under all potential future conditions. A control system is subject to inherent limitations and, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met.

During the three months ended June 30, 2019, there have been no changes in the design of the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over reporting.

Limitation on Scope

The Company acquired Comecer on February 28, 2019. Management has not fully completed its review of internal controls over financial reporting for this newly acquired organization. Since the acquisition occurred within the 365 days of the reporting period, management has limited the scope of design and subsequent evaluation of disclosure controls and procedures and internal controls over financial reporting, as permitted under 5.3 of Form 52-109 F1 pursuant to National Instrument 52-109, Certification of Disclosure in Issuer's Annual and Interim Filings. For the period covered by this MD&A, management has undertaken additional procedures to satisfy itself with respect to the accuracy and completeness of the acquired operations' financial information. The following summary of financial information pertains to the acquisition that was included in ATS' interim condensed consolidated financial statements for the period ended June 30, 2019.

(millions of dollars)	Comecer
Revenue[1]	24.9
Net income[1]	(1.6)
Current assets[2]	58.4
Non-current assets[2]	187.2
Current liabilities[2]	52.5
Non-current liabilities[2]	108.2

[1] Results from April 1, 2019 to June 30, 2019, includes amortization of acquisition-related intangible assets.
[2] Interim consolidated statements of financial position as at June 30, 2019

Note to Readers: Forward-Looking Statements

This management's discussion and analysis of financial conditions, and results of operations of ATS contains certain statements that may constitute forward-looking information within the meaning of applicable securities laws ("forward-looking statements"). Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of ATS, or developments in ATS' business or in its industry, to differ materially from the anticipated results, performance, achievements or developments expressed or implied by such forward-looking statements. Forward-looking statements include all disclosure regarding possible events, conditions or results of operations that is based on assumptions about future economic conditions and courses of action. Forward-looking statements may also include, without limitation, any statement relating to future events, conditions or circumstances. ATS cautions you not to place undue reliance upon any such forward-looking statements, which speak only as of the date they are made. Forward-looking statements relate to, among other things: the strategic framework; trade negotiations and disputes; conversion of opportunities into Order Bookings; the expected benefits where the company engages with customers on enterprise-type solutions and the potential impact on Order Bookings, performance period, and timing of revenue recognition; the Company's Order Backlog partially mitigating the impact of volatile Order Bookings; rate of Order Backlog conversion; expected benefits with respect to the Company's efforts to expand its services revenues; deployment of the ATS Business Model ("ABM") and the expected impact; initiatives having the goal of expanding adjusted earnings from operations margin over long-term; the Company's strategy to expand organically and through acquisition; the Company's goal with respect to non-cash working capital as a percentage of revenues; the Company's expectations in regards to investment in capital assets; expectation in relation to meeting funding requirements for investments; potential to use leverage to support growth strategy; the Company's expectation with respect to effective tax rate; and the Company's belief with respect to the outcome of certain lawsuits, claims and contingencies.

The risks and uncertainties that may affect forward-looking statements include, among others: impact of the global economy; general market performance including capital market conditions and availability and cost of credit; performance of the markets that ATS serves; foreign currency and exchange risk; the relative strength of the Canadian dollar; impact of factors such as increased pricing pressure and possible margin compression; the regulatory and tax environment; that current or future trade negotiations or disputes have unexpected impact on the business, including increased cost of supplies; that some or all of the sales funnel is not converted to Order Bookings due to competitive factors or failure to meet customer needs; timing of customer decisions related to large enterprise programs and potential for negative impact associated with any cancellations or non-performance in relation thereto; variations in the amount of Order Backlog completed in any given quarter; that the Company is not successful in growing its service offering or that expected benefits are not realized; that the ABM is not deployed effectively, not adopted on the desired scale by the business, or that its impact is other than as expected; that efforts to expand adjusted earnings from operations margin over long-term is unsuccessful, due to any number of reasons, including less than anticipated increase in after-sales service revenues or reduced margins attached to those revenues, inability to achieve lower costs through supply chain management, failure to develop, adopt internally, or have customers adopt, standardized platforms and technologies, inability to maintain current cost structure if revenues were to grow, and failure of ABM to impact margins; inability to successfully expand organically or through acquisition, due to an inability to grow expertise, personnel, and/or facilities at required rates or to identify, negotiate and conclude one or more acquisitions, or to raise, through debt or equity, or otherwise have available, required capital; that acquisitions made are not integrated as quickly or effectively as planned or expected and, as a result, anticipated benefits and synergies are not realized; non-cash working capital as a percentage of revenues operating at a level other than as expected due to reasons, including, the timing and nature of Order Bookings, the timing of payment milestones and payment terms in customer contracts, and delays in customer programs; that the Company reverses one or more of its plans in regards to investment in capital assets or that the cost of capital assets are greater than expected; that the effective tax rate is other than expected, due to reasons including income spread among jurisdictions being other than anticipated; risk that the ultimate outcome of lawsuits, claims, and contingencies give rise to material liabilities for which no provisions have been recorded; that one or more customers, or other entities with which the Company has contracted, experience insolvency or bankruptcy with resulting delays, costs or losses to the Company; political, labour or supplier disruptions; the development of superior or alternative technologies to those developed by ATS; the success of competitors with greater capital and resources in exploiting their technology; market risk for developing technologies; risks relating to legal proceedings to which ATS is or may become a party; exposure to product and/or professional liability claims; risks associated with greater than anticipated tax liabilities or expenses; and other risks detailed from time to time in ATS' filings with Canadian provincial securities regulators. Forward-looking statements are based on management's current plans, estimates, projections, beliefs and opinions, and other than as required by applicable securities laws, ATS does not undertake any obligation to update forward-looking statements should assumptions related to these plans, estimates, projections, beliefs and opinions change.