



A U T O M A T I O N

ATS Automation Tooling Systems Inc.

**Management's Discussion and Analysis**

For the Quarter Ended October 1, 2017

TSX: ATA

## Management's Discussion and Analysis

For the Quarter Ended October 1, 2017

*This Management's Discussion and Analysis ("MD&A") for the three and six months ended October 1, 2017 (second quarter of fiscal 2018) is as of November 7, 2017 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 second quarter of fiscal 2018, 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, 2017 (fiscal 2017), and, accordingly, the purpose of this document is to provide a fiscal 2018 second quarter update to the information contained in the fiscal 2017 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](http://www.sedar.com) and on the Company's website at [www.atsautomation.com](http://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. These terms do not have any standardized meaning prescribed within IFRS and therefore may not be comparable to similar measures presented by other companies. 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, costs and earnings in excess of billing on contracts in progress, inventories, deposits, prepaids and other assets, less accounts payable, accrued liabilities, provisions and billings in excess of costs and earnings on contracts in progress. 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 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's 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 provides 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 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. EBITDA should not be construed as a substitute for net income determined in accordance with IFRS. Adjusted earnings from operations is not necessarily indicative of earnings from operations or cash flows from operations as determined under IFRS and may not be comparable to similar measures presented by other companies.

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- and six-month periods ending October 1, 2017 and October 2, 2016, 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- and six-month periods ending October 1, 2017 and October 2, 2016 is also contained in the 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, chemicals, consumer products, electronics, food, beverage, transportation, energy, and oil and gas. Founded in 1978, ATS employs approximately 3,500 people at 23 manufacturing facilities and over 50 offices in North America, Europe, Southeast Asia and China.

### **Strategic Framework**

To drive the creation of long-term sustainable shareholder value, the Company has developed a framework for 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 strategic initiatives including the launch of the ATS Business Model (“ABM”), the implementation and measurement of value drivers and key performance indicators, a revised strategic planning process, succession planning and talent management, advancing 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 ATS Business Model, providing innovation and value to the Company's customers and markets, and growing the Company's recurring revenue model.

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

## OVERVIEW – OPERATING RESULTS

### Consolidated Revenues

(In millions of dollars)

Revenues by market	Three Months Ended	Three Months Ended	Six Months Ended	Six Months Ended
	October 1, 2017	October 2, 2016	October 1, 2017	October 2, 2016
Consumer products & electronics	\$ 32.2	\$ 28.0	\$ 68.8	\$ 64.1
Energy	34.6	47.0	56.4	112.3
Life sciences	134.5	97.9	253.6	192.5
Transportation	73.6	69.6	160.1	138.9
<b>Total revenues</b>	<b>\$ 274.9</b>	<b>\$ 242.5</b>	<b>\$ 538.9</b>	<b>\$ 507.8</b>

### Second Quarter

Fiscal 2018 second quarter revenues were 13% higher than in the corresponding period a year ago. Higher revenues primarily reflected higher Order Backlog entering the second quarter of fiscal 2018 compared to a year ago.

By market, fiscal 2018 second quarter revenues from consumer products & electronics increased 15% compared to a year ago due to timing of Order Bookings. Revenues generated in the energy market decreased 26% primarily due to lower Order Backlog entering the second quarter of fiscal 2018 compared to a year ago. Revenues in the life sciences market increased 37%, primarily reflecting higher Order Backlog entering the second quarter of fiscal 2018 compared to a year ago. Transportation revenues increased 6% compared to a year ago primarily due to timing of Order Bookings.

### Year-to-date

Revenues for the six months ended October 1, 2017 were 6% higher than in the corresponding period a year ago, primarily reflecting higher Order Backlog entering fiscal 2018 compared to a year ago.

By market, fiscal 2018 year-to-date revenues from consumer products & electronics increased 7%, primarily due to timing of Order Bookings. Revenues generated in the energy market decreased 50% primarily due to lower Order Backlog entering fiscal 2018 compared to a year ago. Revenues in the life sciences market increased 32%, primarily reflecting higher Order Backlog entering fiscal 2018 compared to a year ago. Transportation revenues increased 15% compared to a year ago primarily due to higher Order Backlog entering fiscal 2018 compared to a year ago.

### Consolidated Operating Results

(In millions of dollars)

Earnings from operations	Three Months Ended	Three Months Ended	Six Months Ended	Six Months Ended
	October 1, 2017	October 2, 2016	October 1, 2017	October 2, 2016
Earnings from operations	\$ 23.9	\$ 17.3	\$ 45.2	\$ 39.9
Amortization of acquisition-related intangible assets	4.9	5.0	9.9	10.3
<b>Adjusted earnings from operations<sup>1</sup></b>	<b>\$ 28.8</b>	<b>\$ 22.3</b>	<b>\$ 55.1</b>	<b>\$ 50.2</b>

<sup>1</sup> See "Notice to Reader: Non-IFRS Measures and Additional IFRS Measures."

Earnings from operations	Three Months Ended	Three Months Ended	Six Months Ended	Six Months Ended
	October 1, 2017	October 2, 2016	October 1, 2017	October 2, 2016
Earnings from operations	\$ 23.9	\$ 17.3	\$ 45.2	\$ 39.9
Depreciation and amortization	8.9	8.0	17.8	16.9
<b>EBITDA<sup>2</sup></b>	<b>\$ 32.8</b>	<b>\$ 25.3</b>	<b>\$ 63.0</b>	<b>\$ 56.8</b>

<sup>2</sup> See "Notice to Reader: Non-IFRS Measures and Additional IFRS Measures."

## Second Quarter

Fiscal 2018 second quarter earnings from operations were \$23.9 million (9% operating margin) compared to \$17.3 million (7% operating margin) in the second quarter of fiscal 2017. Second quarter fiscal 2018 earnings from operations included \$4.9 million related to amortization of identifiable intangible assets recorded on the acquisitions of PA, IWK and sortimat. Included in second quarter fiscal 2017 earnings from operations was \$5.0 million related to amortization of identifiable intangible assets recorded on the acquisitions of PA, IWK and sortimat. Excluding these items, second quarter fiscal 2018 adjusted earnings from operations were \$28.8 million (10% margin), compared to adjusted earnings from operations of \$22.3 million (9% margin) a year ago. Higher adjusted earnings from operations primarily reflected higher revenues and an improved gross margin in the second quarter of fiscal 2018, partially offset by higher selling, general and administrative expenses compared to a year ago.

Depreciation and amortization expense was \$8.9 million in the second quarter of fiscal 2018 and \$8.0 million in the second quarter of fiscal 2017. The increase primarily reflected depreciation of internal development projects and computer hardware.

EBITDA was \$32.8 million (12% EBITDA margin) in the second quarter of fiscal 2018 compared to \$25.3 million (10% EBITDA margin) in the second quarter of fiscal 2017.

## Year-to-date

For the six months ended October 1, 2017, earnings from operations were \$45.2 million (8% operating margin) compared to \$39.9 million (8% operating margin) in the corresponding period a year ago. Excluding \$9.9 million related to amortization of identifiable intangible assets recorded on the acquisitions of PA, IWK and sortimat, adjusted earnings from operations were \$55.1 million (10% operating margin) in the first six months of fiscal 2018, compared to adjusted earnings from operations of \$50.2 million (10% operating margin) in the corresponding period a year ago. Higher adjusted earnings from operations primarily reflected higher revenues and an improved gross margin in fiscal 2018, partially offset by higher selling, general and administrative expenses compared to a year ago.

Depreciation and amortization expense was \$17.8 million in the first six months of fiscal 2018 compared to \$16.9 million a year ago. The increase primarily reflected depreciation of internal development projects and computer hardware.

Year-to-date fiscal 2018 EBITDA was \$63.0 million (12% EBITDA margin) compared to \$56.8 million (11% EBITDA margin) in the first six months of fiscal 2017.

## Order Bookings by Quarter

Second quarter fiscal 2018 Order Bookings were \$257 million, an 11% decrease from the second quarter of fiscal 2017. By customer market, lower Order Bookings in the life sciences market were partially offset by higher Order Bookings in consumer products & electronics, energy and transportation markets.

## Order Backlog Continuity

(In millions of dollars)

	Three Months Ended October 1, 2017	Three Months Ended October 2, 2016	Six Months Ended October 1, 2017	Six Months Ended October 2, 2016
Opening Order Backlog	\$ 683	\$ 610	\$ 681	\$ 652
Revenues	(275)	(243)	(539)	(508)
Order Bookings	257	289	523	528
Order Backlog adjustments <sup>1</sup>	(17)	(2)	(17)	(18)
Total <sup>2</sup>	\$ 648	\$ 654	\$ 648	\$ 654

<sup>1</sup> Order Backlog adjustments include foreign exchange adjustments and cancellations.

<sup>2</sup> Approximately \$70 million of Order Backlog as at October 2, 2016 related to a program that was put on hold by a customer and cancelled subsequent to the end of the second quarter of fiscal 2017.

## Order Backlog by Market

(In millions of dollars)

As at	October 1, 2017	October 2, 2016
Consumer products & electronics	\$ 64	\$ 81
Energy	104	95
Life sciences	307	284
Transportation	173	194
Total <sup>1</sup>	\$ 648	\$ 654

<sup>1</sup> Approximately \$70 million of Order Backlog as at October 2, 2016 related to a program that was put on hold by a customer and cancelled subsequent to the end of the second quarter of fiscal 2017.

At October 1, 2017, Order Backlog was \$648 million, 1% lower than at October 2, 2016. Lower Order Backlog in the consumer products & electronics and transportation markets was partially offset by higher Order Backlog in the energy and life sciences markets. Order Backlog a year ago included approximately \$70 million related to a program that was put on hold by a customer subsequent to the end of the period and then cancelled due to rapid changes in their market. Foreign exchange rate changes negatively impacted the translation of Order Backlog from foreign-based ATS subsidiaries compared to second quarter fiscal 2017.

### Outlook

The global economic environment has shown some recent signs of improvement; however, geopolitical risks remain. 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.

Funnel activity (which includes customer requests for proposal and ATS identified customer opportunities) in life sciences remains strong and funnel activity in the transportation market is solid, particularly with opportunities in the electrification of vehicles. Funnel activity in energy markets is fluid, and provides select opportunities for ATS. Funnel activity in the consumer products & electronics market has improved; however, it remains low relative to other customer markets. Overall, the Company's funnel remains significant; however, conversion of opportunities into Order Bookings is variable as customers are cautious in their approach to capital investment.

The Company's sales organization continues to work to engage customers on enterprise-type solutions, which it expects will provide ATS with more strategic relationships, increased predictability, better program control and less 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 Company's efforts to expand its after-sales service offering is expected to provide some balance to the capital expenditure cycle of its customers, however this may not offset capital spending volatility. The Company expects its Order Backlog of \$648 million at the end of the second quarter of fiscal 2018 to partially mitigate the impact of volatile Order Bookings on revenues in the short term. In the third quarter of fiscal 2018, management expects Order Backlog conversion to be in the 40% to 45% range. The expected conversion rate is based on current programs in Order Backlog and management's estimate of revenues from new Order Bookings in the quarter.

Following a thorough review of the Company's operations, including its global capabilities and leadership, management has implemented a restructuring that will result in the closure of one division in southeast Asia, the rationalization of a business line at a division in Europe, as well as leadership and management changes. In total, management expects that approximately 3% of the Company's workforce will be affected. The restructuring is designed to improve the Company's leadership, cost structure and enhance capacity utilization by realigning resources to areas of the business that will enable it to deliver increased value to customers and shareholders. The restructuring will be completed over the next three to four months and most of the associated cost of approximately \$9 million to \$10 million will be incurred in the Company's third fiscal quarter. Management expects an 18 to 24 month payback.

The Company is deploying the ATS Business Model across its divisions globally. The initial roll-out of the ABM includes Company-wide training and deployment of tools to standardize problem solving and continuous improvement processes. The Company expects training and deployment to be complete by the end of fiscal 2018. As the initial ABM tools are implemented, management will deploy additional tools

as part of the on-going evolution 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 seeks to expand its position in the global automation market organically and through acquisition. The Company's solid foundation and strong cash flow generation capability provide the flexibility to pursue its growth strategy.

## CONSOLIDATED RESULTS

(In millions of dollars, except per share data)

	Three Months Ended October 1, 2017	Three Months Ended October 2, 2016	Six Months Ended October 1, 2017	Six Months Ended October 2, 2016
Revenues	\$ 274.9	\$ 242.5	\$ 538.9	\$ 507.8
Cost of revenues	204.1	181.8	401.3	382.3
Selling, general and administrative	45.2	41.2	89.5	82.5
Stock-based compensation	1.7	2.2	2.9	3.1
<b>Earnings from operations</b>	<b>\$ 23.9</b>	<b>\$ 17.3</b>	<b>\$ 45.2</b>	<b>\$ 39.9</b>
Net finance costs	\$ 6.2	\$ 6.4	\$ 12.4	\$ 13.0
Provision for income taxes	3.9	2.4	7.5	6.3
<b>Net income</b>	<b>\$ 13.8</b>	<b>\$ 8.5</b>	<b>\$ 25.3</b>	<b>\$ 20.6</b>
<b>Basic and diluted earnings per share</b>	<b>\$ 0.15</b>	<b>\$ 0.09</b>	<b>\$ 0.27</b>	<b>\$ 0.22</b>

**Revenues.** At \$274.9 million, consolidated revenues for the second quarter of fiscal 2018 were \$32.4 million, or 13%, higher than the corresponding period a year ago. At \$538.9 million, year-to-date revenues were \$31.1 million, or 6%, higher than in the corresponding period a year ago (see "Overview – Operating Results").

**Cost of revenues.** At \$204.1 million, second quarter fiscal 2018 cost of revenues increased compared to the corresponding period a year ago by \$22.3 million, or 12%. Year-to-date cost of revenues of \$401.3 million increased \$19.0 million, or 5%, primarily on higher revenues. At 26%, gross margin in the second quarter of fiscal 2018 increased 1% from the corresponding period a year ago, due primarily to improved program execution and operational utilization. Year-to-date gross margin of 26% also increased 1% from last year.

**Selling, general and administrative ("SG&A") expenses.** SG&A expenses for the second quarter of fiscal 2018 were \$45.2 million, which included \$4.9 million of amortization costs related to the amortization of identifiable intangible assets recorded on the acquisitions of PA, IWK and sortimat. SG&A expenses for the second quarter of fiscal 2017 were \$41.2 million, which included \$5.0 million of amortization costs related to the amortization of identifiable intangible assets recorded on the acquisitions of PA, IWK and sortimat. Excluding these costs, SG&A expenses were \$40.3 million in the second quarter of fiscal 2018, up from \$36.2 million a year ago. Higher SG&A expenses in the second quarter of fiscal 2018 primarily reflected increased employee costs and professional fees.

For the six months ended October 1, 2017, SG&A expenses were \$89.5 million, which included \$9.9 million of expenses related to the amortization of identifiable intangible assets recorded on the acquisitions of PA, IWK and sortimat. Excluding these costs, SG&A expenses were \$79.6 million for the six months ended October 1, 2017. Comparably, SG&A expenses for the six months ended October 2, 2016 were \$72.2 million, which excluded \$10.3 million of expenses related to the amortization of identifiable intangible assets recorded on the acquisitions of PA, IWK, ATW and sortimat. Higher SG&A expenses in the first six months of fiscal 2018 primarily reflected increased employee costs.

**Stock-based compensation.** Stock-based compensation expense amounted to \$1.7 million in the second quarter of fiscal 2018 compared to \$2.2 million in the corresponding period a year ago. For the six-month period ended October 1, 2017, stock-based compensation expense decreased to \$2.9 million from \$3.1 million a year earlier. The decrease in stock-based compensation costs is attributable to lower expenses from the revaluation of deferred stock units and lower expenses from stock options, partially offset by increased expenses from restricted share units.

**Earnings from operations.** For the three- and six-month periods ended October 1, 2017, consolidated earnings from operations were \$23.9 million (9% operating margin) and \$45.2 million (8% operating margin), respectively, compared to earnings from operations of \$17.3 million (7% operating margin) and \$39.9 million (8% operating margin) in the corresponding periods a year ago (see “Overview – Operating Results”).

**Net finance costs.** Net finance costs were \$6.2 million in the second quarter of fiscal 2018, \$0.2 million lower than in the corresponding period a year ago. For the six months ended October 1, 2017, finance costs were \$12.4 million compared to \$13.0 million in the corresponding period a year ago. The decrease was primarily due to higher interest income earned in the first two quarters of fiscal 2018 compared to the corresponding period a year ago.

**Income tax provision.** For the three and six months ended October 1, 2017, the Company's effective income tax rates of 22% and 23%, respectively, differed from the combined Canadian basic federal and provincial income tax rate of 27% primarily due to certain non-deductible income and 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 2018 second quarter net income was \$13.8 million (15 cents per share basic and diluted) compared to \$8.5 million (9 cents per share basic and diluted) for the second quarter of fiscal 2017. Adjusted basic earnings per share were 18 cents in the second quarter of fiscal 2018 compared to 13 cents for the second quarter of fiscal 2017 (see “Reconciliation of Non-IFRS Measures to IFRS Measures”).

Net income for the six months ended October 1, 2017 was \$25.3 million (27 cents per share basic and diluted) compared to \$20.6 million (22 cents per share basic and diluted) for the corresponding period a year ago. Adjusted basic earnings per share were 34 cents in the six months ended October 1, 2017 compared to 30 cents in the corresponding period a year ago (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):

	<b>Three Months Ended October 1, 2017</b>	Three Months Ended October 2, 2016	<b>Six Months Ended October 1, 2017</b>	Six Months Ended October 2, 2016
<b>EBITDA</b>	<b>\$ 32.8</b>	\$ 25.3	<b>\$ 63.0</b>	\$ 56.8
Less: depreciation and amortization expense	<b>8.9</b>	8.0	<b>17.8</b>	16.9
<b>Earnings from operations</b>	<b>\$ 23.9</b>	\$ 17.3	<b>\$ 45.2</b>	\$ 39.9
Less: net finance costs	<b>6.2</b>	6.4	<b>12.4</b>	13.0
Provision for income taxes	<b>3.9</b>	2.4	<b>7.5</b>	6.3
<b>Net income</b>	<b>\$ 13.8</b>	\$ 8.5	<b>\$ 25.3</b>	\$ 20.6



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, respectively):

	Three Months Ended October 1, 2017			Three Months Ended October 2, 2016		
	IFRS	Adjustments	Adjusted (non-IFRS)	IFRS	Adjustments	Adjusted (non-IFRS)
<b>Earnings from operations</b>	\$ 23.9	\$ —	\$ 23.9	\$ 17.3	\$ —	\$ 17.3
Amortization of acquisition-related intangible assets	—	4.9	4.9	—	5.0	5.0
	\$ 23.9	\$ 4.9	\$ 28.8	\$ 17.3	\$ 5.0	\$ 22.3
Less: net finance costs	\$ 6.2	\$ —	\$ 6.2	\$ 6.4	\$ —	\$ 6.4
<b>Income before income taxes</b>	\$ 17.7	\$ 4.9	\$ 22.6	\$ 10.9	\$ 5.0	\$ 15.9
Provision for income taxes	\$ 3.9	\$ —	\$ 3.9	\$ 2.4	\$ —	\$ 2.4
Adjustment to provision for income taxes <sup>1</sup>	—	1.5	1.5	—	1.5	1.5
	\$ 3.9	\$ 1.5	\$ 5.4	\$ 2.4	\$ 1.5	\$ 3.9
<b>Net income</b>	\$ 13.8	\$ 3.4	\$ 17.2	\$ 8.5	\$ 3.5	\$ 12.0
<b>Basic earnings per share</b>	\$ 0.15	\$ 0.03	\$ 0.18	\$ 0.09	\$ 0.04	\$ 0.13

<sup>1</sup> 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.

	Six Months Ended October 1, 2017			Six Months Ended October 2, 2016		
	IFRS	Adjustments	Adjusted (non-IFRS)	IFRS	Adjustments	Adjusted (non-IFRS)
<b>Earnings from operations</b>	\$ 45.2	\$ —	\$ 45.2	\$ 39.9	\$ —	\$ 39.9
Amortization of acquisition-related intangible assets	—	9.9	9.9	—	10.3	10.3
	\$ 45.2	\$ 9.9	\$ 55.1	\$ 39.9	\$ 10.3	\$ 50.2
Less: net finance costs	\$ 12.4	\$ —	\$ 12.4	\$ 13.0	\$ —	\$ 13.0
<b>Income before income taxes</b>	\$ 32.8	\$ 9.9	\$ 42.7	\$ 26.9	\$ 10.3	\$ 37.2
Provision for income taxes	\$ 7.5	\$ —	\$ 7.5	\$ 6.3	\$ —	\$ 6.3
Adjustment to provision for income taxes <sup>1</sup>	—	3.1	3.1	—	3.2	3.2
	\$ 7.5	\$ 3.1	\$ 10.6	\$ 6.3	\$ 3.2	\$ 9.5
<b>Net income</b>	\$ 25.3	\$ 6.8	\$ 32.1	\$ 20.6	\$ 7.1	\$ 27.7
<b>Basic earnings per share</b>	\$ 0.27	\$ 0.07	\$ 0.34	\$ 0.22	\$ 0.08	\$ 0.30

<sup>1</sup> 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	<b>October 1, 2017</b>	March 31, 2017
Cash and cash equivalents	\$ 306.3	\$ 286.7
Debt-to-equity ratio	0.47:1	0.52:1
For the three months ended	<b>October 1, 2017</b>	October 2, 2016
Cash flows provided by operating activities	\$ 37.7	\$ 3.8

At October 1, 2017, the Company had cash and cash equivalents of \$306.3 million compared to \$286.7 million at March 31, 2017. At October 1, 2017, the Company's debt-to-total equity ratio was 0.47:1.

At October 1, 2017, the Company had \$647.9 million of unutilized multipurpose credit, including letters of credit, available under existing credit facilities and an additional \$3.7 million available under letter of credit facilities.

In the three months ended October 1, 2017, cash flows provided by operating activities were \$37.7 million (\$3.8 million provided by operating activities in the second quarter a year ago). The increase in operating cash flows related primarily to the timing of investments in non-cash working capital in certain customer programs. In the six months ended October 1, 2017, cash flows provided by operating activities were \$34.3 million (\$61.3 million provided by 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 large customer programs.

In the second quarter of fiscal 2018, the Company's investment in non-cash working capital decreased by \$13.8 million from July 2, 2017. On a year-to-date basis, investment in non-cash working capital increased \$12.1 million. Accounts receivable increased 10%, or \$16.7 million, driven by the timing of billings on certain customer contracts. Net contracts in progress decreased 22%, or \$10.6 million, compared to March 31, 2017. The Company actively manages its accounts receivable and net contracts in progress balances through billing terms on long-term contracts, collection efforts and supplier payment terms. Inventories increased 14%, or \$6.8 million, primarily due to an increase in work-in-process on certain customer projects. Deposits and prepaid assets increased 46%, or \$7.4 million, compared to March 31, 2017 due to the timing of program execution. Accounts payable and accrued liabilities increased 5%, or \$9.0 million, compared to March 31, 2017. Provisions increased 12%, or \$1.7 million, compared to March 31, 2017.

Capital expenditures totalled \$7.2 million in the first six months of fiscal 2018, primarily related to computer hardware, production equipment and building additions.

Intangible assets expenditures were \$2.9 million for the first six months of fiscal 2018, and primarily related to computer software and various internal development projects.

The Company's U.S. \$250.0 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. 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 term of the Senior Notes.

On July 28, 2017, the Company amended its Credit Facility to extend the agreement by three years to mature on August 29, 2021. The Company's senior secured credit facility (the "Credit Facility") provides a committed revolving credit facility of \$750.0 million. The Credit Facility is secured by: (i) the Company's assets, including real estate; (ii) assets, including certain real estate, of certain of the Company's North American subsidiaries; and (iii) a pledge of shares of certain of the Company's non-North American subsidiaries. Certain of the Company's subsidiaries also provide guarantees under the Credit Facility. At October 1, 2017, the Company had utilized \$106.7 million under the Credit Facility by way of letters of credit (March 31, 2017 - \$115.0 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 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, which ranges from 1.45% to 3.00% and a fee for usage of non-financial letters of credit, which 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 a 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 October 1, 2017, all of the covenants were met.

The Company has additional credit facilities available of \$7.0 million (2.5 million Euros, 75.0 million Indian Rupees, 50.0 million Thai Baht and 1.5 million Czech Koruna). The total amount outstanding on these facilities at October 1, 2017 was \$2.4 million, of which \$1.1 million was classified as bank indebtedness (March 31, 2017 - \$1.4 million) and \$1.3 million was classified as long-term debt (March 31, 2017 - \$2.6 million). The interest rates applicable to the credit facilities range from 1.66% to 9.18% per annum. A portion of the long-term debt is secured by certain assets of the Company. The 75.0 million Indian Rupees and the 50.0 million Thai Baht credit facilities are secured by letters of credit under the Credit Facility.

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 at a level below 15%. The Company expects that continued cash flows from operations, together with cash and cash equivalents on hand and credit available under operating and long-term credit facilities, will be sufficient to fund its requirements for investments in non-cash working capital and capital assets and to fund strategic investment plans including some potential acquisitions. Significant acquisitions could result in additional debt or equity financing requirements. The Company expects to continue to use leverage to support its growth strategy.

### Contractual Obligations

(In millions of dollars)

The Company's minimum operating lease payments (related primarily to facilities and equipment) and purchase obligations are as follows:

	Operating leases	Purchase obligations
Less than one year	\$ 9.2	\$ 85.8
One – two years	8.1	0.8
Two – three years	7.1	0.5
Three – four years	5.2	—
Four – five years	3.2	—
Due in over five years	0.9	—
	\$ 33.7	\$ 87.1

The Company's off-balance sheet arrangements consist of purchase obligations and various operating lease financing arrangements related primarily to facilities and equipment that were entered into in the normal course of business. The Company's purchase obligations consist primarily of commitments for material purchases.

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 October 1, 2017, the total value of outstanding letters of credit was approximately \$127.1 million (March 31, 2017 - \$136.0 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 insurance in certain instances.

During the first six months of fiscal 2018, 23,250 stock options were exercised. At November 7, 2017 the total number of shares outstanding was 93,625,276 and there were 2,351,374 stock options outstanding to acquire common shares 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 six months of fiscal 2018.

#### **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. As a result of the cross-currency interest rate swap instruments, the Company expects its interest expenses to be reduced by approximately U.S. \$2 million per annum from the coupon rate of the Senior Notes.

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			Six Months Ended		
	October 1, 2017	October 2, 2016	% change	October 1, 2017	October 2, 2016	% change
U.S. Dollar	1.252	1.305	(4.1%)	1.299	1.297	0.2%
Euro	1.473	1.457	1.1%	1.476	1.456	1.4%

## CONSOLIDATED QUARTERLY RESULTS

(In millions of dollars, except per share amounts)

	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Revenues	\$ 274.9	\$ 264.0	\$ 265.7	\$ 237.4	\$ 242.5	\$ 265.4	\$ 246.8	\$ 274.9
Earnings from operations	\$ 23.9	\$ 21.3	\$ 16.8	\$ 15.3	\$ 17.3	\$ 22.6	\$ 8.1	\$ 26.8
Adjusted earnings from operations	\$ 28.8	\$ 26.3	\$ 24.5	\$ 22.5	\$ 22.3	\$ 27.9	\$ 23.2	\$ 32.1
Net income	\$ 13.8	\$ 11.5	\$ 7.8	\$ 6.6	\$ 8.5	\$ 12.1	\$ 1.4	\$ 15.5
Basic and diluted earnings per share	\$ 0.15	\$ 0.12	\$ 0.08	\$ 0.07	\$ 0.09	\$ 0.13	\$ 0.02	\$ 0.16
Adjusted basic earnings per share	\$ 0.18	\$ 0.16	\$ 0.15	\$ 0.12	\$ 0.13	\$ 0.17	\$ 0.14	\$ 0.21
Order Bookings	\$ 257.0	\$ 266.0	\$ 322.0	\$ 284.0	\$ 289.0	\$ 239.0	\$ 390.0	\$ 228.0
Order Backlog	\$ 648.0	\$ 683.0	\$ 681.0	\$ 632.0	\$ 654.0	\$ 610.0	\$ 652.0	\$ 546.0

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 and 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 with its Order Bookings, revenues and earnings from operations due to summer plant shutdowns by its customers.

## CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Company's interim condensed 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 interim condensed 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 fiscal 2017 MD&A.

## CONTROLS AND PROCEDURES

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") 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 and six months ended October 1, 2017, 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 financial reporting.

#### **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; 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; expectation that the Company's efforts to expand its after-sales service offering will provide some balance to the capital expenditure cycle of its customers; the Company's Order Backlog partially mitigating the impact of volatile Order Bookings; rate of Order Backlog conversion; the Company's expectations surrounding the restructuring currently being implemented, including with respect to the number of employees affected, impact, timing, cost, and payback; launch of the ATS Business Model ("ABM") and the expected impact; the Company's strategy to expand organically and through acquisition; the Company's expectation with respect to effective tax rate; the Company's goal with respect to non-cash working capital as a percentage of revenues; expectation in relation to meeting funding requirements for investments; potential to use leverage to support growth strategy; the Company's belief with respect to the outcome of certain lawsuits, claims and contingencies; and the Company's expectation with respect to a reduction of interest expense resulting from an interest rate swap. 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 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; that revenues from after-sales services are insufficient to offset capital spending volatility; variations in the amount of Order Backlog completed in any given quarter; that the current restructuring does not generate anticipated benefits, that it takes longer than anticipated, or that the cost and payback is other than expected; that the ABM is not implemented effectively, not adopted on the desired scale by the business, or that its impact is other than as expected; 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; that the effective tax rate is other than expected, due to reasons including income spread among jurisdictions being other than anticipated; 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; 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 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.