



ATS Automation Tooling Systems Inc.  
**Management's Discussion and Analysis**  
For the Quarter Ended October 2, 2016

TSX: ATA

## Management's Discussion and Analysis

For the Quarter Ended October 2, 2016

*This Management's Discussion and Analysis ("MD&A") for the three and six months ended October 2, 2016 (second quarter of fiscal 2017) is as of November 8, 2016 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 2017 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, 2016 (fiscal 2016) and, accordingly, the purpose of this document is to provide a fiscal 2017 second quarter update to the information contained in the fiscal 2016 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 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 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 has 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 2, 2016 and September 27, 2015, 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 2, 2016 and September 27, 2015 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 24 manufacturing facilities and over 50 offices in North America, Europe, Southeast Asia and China.

## OVERVIEW – OPERATING RESULTS

### Revenues

(In millions of dollars)

	Three Months Ended October 2, 2016	Three Months Ended September 27, 2015	Six Months Ended October 2, 2016	Six Months Ended September 27, 2015
<b>Revenues by market</b>				
Consumer products & electronics	\$ 28.0	\$ 38.4	\$ 64.1	\$ 75.7
Energy	47.0	21.1	112.3	39.6
Life sciences	97.9	109.3	192.5	216.0
Transportation	69.6	94.9	138.9	186.7
<b>Total revenues</b>	<b>\$ 242.5</b>	<b>\$ 263.7</b>	<b>\$ 507.8</b>	<b>\$ 518.0</b>

### Second Quarter

Fiscal 2017 second quarter revenues were 8% lower than in the corresponding period a year ago, primarily reflecting the timing of project activities. Foreign exchange rate changes did not materially impact the translation of revenues earned by foreign-based subsidiaries compared to the corresponding period a year ago.

By market, fiscal 2017 second quarter revenues from consumer products & electronics decreased 27%, primarily due to lower activity in the consumer products market. Revenues generated in the energy market increased 123% compared to the corresponding period a year ago, primarily due to higher Order Backlog entering the second quarter of 2017 compared to a year ago. Revenues generated in the life sciences market decreased 10% compared to the corresponding period a year ago, primarily reflecting lower Order Backlog entering the second quarter of fiscal 2017 compared to a year ago. Transportation revenues decreased 27% compared to a year ago primarily due to lower activity compared to a year ago.

### Year-to-date

Revenues for the six months ended October 2, 2016 were 2% lower than in the corresponding period a year ago, primarily reflecting the timing of project activities. Foreign exchange rate changes positively impacted the translation of revenues earned by foreign-based subsidiaries compared to the corresponding period a year ago, primarily reflecting the weakening of the Canadian dollar relative to the U.S. dollar and Euro.

By market, fiscal 2017 year-to-date revenues from consumer products & electronics decreased 15%, primarily reflecting lower activity in the consumer products market. Revenues generated in the energy market increased 184% compared to the corresponding period a year ago, primarily due to higher Order Backlog entering fiscal 2017 compared to a year ago. Revenues generated in the life sciences market decreased 11% compared to the corresponding period a year ago, primarily reflecting the timing of project activities and lower Order Backlog at the end of fiscal 2016 compared to the previous year. Transportation revenues decreased 26% compared to a year ago primarily due to lower Order Backlog entering fiscal 2017 compared to a year ago.

## Operating Results

(In millions of dollars)

	<b>Three Months Ended October 2, 2016</b>	Three Months Ended September 27, 2015	<b>Six Months Ended October 2, 2016</b>	Six Months Ended September 27, 2015
<b>Earnings from operations</b>	\$ 17.3	\$ 24.4	\$ 39.9	\$ 41.9
Amortization of acquisition-related intangible assets	5.0	5.6	10.3	13.3
Restructuring charges	—	1.7	—	3.9
<b>Adjusted earnings from operations<sup>1</sup></b>	<b>\$ 22.3</b>	<b>\$ 31.7</b>	<b>\$ 50.2</b>	<b>\$ 59.1</b>

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

	<b>Three Months Ended October 2, 2016</b>	Three Months Ended September 27, 2015	<b>Six Months Ended October 2, 2016</b>	Six Months Ended September 27, 2015
<b>Earnings from operations</b>	\$ 17.3	\$ 24.4	\$ 39.9	\$ 41.9
Depreciation and amortization	8.0	9.3	16.9	20.5
<b>EBITDA<sup>1</sup></b>	<b>\$ 25.3</b>	<b>\$ 33.7</b>	<b>\$ 56.8</b>	<b>\$ 62.4</b>

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

### Second Quarter

Fiscal 2017 second quarter earnings from operations were \$17.3 million (7% operating margin) compared to \$24.4 million (9% operating margin) in the second quarter of fiscal 2016. Excluding \$5.0 million related to amortization of identifiable intangible assets recorded on the acquisitions of PA, IWK, and sortimat, second quarter fiscal 2017 adjusted earnings from operations were \$22.3 million (9% margin). Second quarter fiscal 2016 earnings from operations included \$1.7 million of restructuring and severance costs and \$5.6 million related to the amortization of identifiable intangible assets recorded on the acquisitions of PA, IWK and sortimat. Excluding these items, last year’s second quarter adjusted earnings from operations were \$31.7 million (12% margin). Lower adjusted earnings from operations in the most recent period primarily reflected lower revenues and increased stock compensation expenses (see “Consolidated Results: Stock-based compensation.”).

Depreciation and amortization expense was \$8.0 million in the second quarter of fiscal 2017, compared to \$9.3 million a year ago. The decrease primarily reflected lower amortization of identifiable intangible assets recorded on the acquisitions of PA, IWK and sortimat compared to the second quarter of fiscal 2016.

EBITDA was \$25.3 million (10% EBITDA margin) in the second quarter of fiscal 2017 compared to \$33.7 million (13% EBITDA margin) in the second quarter of fiscal 2016.

### Year-to-date

For the six months ended October 2, 2016, earnings from operations were \$39.9 million (8% operating margin) compared to \$41.9 million (8% operating margin) in the corresponding period a year ago. Excluding \$10.3 million related to amortization of identifiable intangible assets recorded on the acquisitions of PA, IWK, and sortimat, adjusted earnings from operations were \$50.2 million (10% operating margin) in the first six months of fiscal 2017, compared to

adjusted earnings from operations of \$59.1 million (11% operating margin) in the corresponding period a year ago. Lower adjusted earnings from operations primarily reflected lower revenues, and higher selling, general and administrative expenses.

Depreciation and amortization expense was \$16.9 million in the first six months of fiscal 2017 compared to \$20.5 million a year ago. The decrease primarily reflected lower amortization of identifiable intangible assets recorded on the acquisitions of PA, IWK, ATW and sortimat compared to the first six months of fiscal 2016.

Year-to-date fiscal 2017 EBITDA was \$56.8 million (11% EBITDA margin) compared to \$62.4 million (12% EBITDA margin) in the first six months of fiscal 2016.

### Order Bookings

Second quarter fiscal 2017 Order Bookings were \$289 million, a 26% increase over the second quarter of fiscal 2016. By customer market, increased Order Bookings in the life sciences and transportation markets more than offset lower Order Bookings in the consumer products & electronics and energy markets.

Included in second quarter fiscal 2017 Order Bookings is an enterprise program valued at approximately \$40 million from an industry leading North American-based medical device company for the highly automated manufacturing of their innovative drug delivery device. The Order Booking includes the design, delivery and installation of a new manufacturing system which is based on ATS' proprietary technology. This unique technology facilitates high volume and reliable manufacturing requirements in a compact footprint. The Order Booking was made under a master agreement that provides the framework for an additional potential follow-on order depending on the success of the customer's product.

Foreign exchange rate changes did not materially impact the translation of Order Bookings from foreign-based subsidiaries compared to the corresponding period a year ago.

### Order Backlog Continuity

(In millions of dollars)

	<b>Three Months Ended October 2, 2016</b>	Three Months Ended September 27, 2015	<b>Six Months Ended October 2, 2016</b>	Six Months Ended September 27, 2015
Opening Order Backlog	\$ 610	\$ 590	\$ 652	\$ 632
Revenues	(243)	(264)	(508)	(518)
Order Bookings	289	230	528	452
Order Backlog adjustments <sup>1</sup>	(2)	33	(18)	23
<b>Total<sup>2</sup></b>	<b>\$ 654</b>	<b>\$ 589</b>	<b>\$ 654</b>	<b>\$ 589</b>

<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 relates to a program which was put on hold by a customer subsequent to the end of the second quarter of fiscal 2017.

## Order Backlog by Market

(In millions of dollars)

As at	October 2, 2016	September 27, 2015
Consumer products & electronics	\$ 81	\$ 104
Energy	95	39
Life sciences	284	244
Transportation	194	202
Total <sup>1</sup>	\$ 654	\$ 589

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

At October 2, 2016, Order Backlog was \$654 million, 11% higher than at September 27, 2015. Higher Order Backlog in the energy and life sciences markets more than offset lower Order Backlog in the consumer products & electronics and transportation markets. Approximately \$70 million of Order Backlog relates to a program which was put on hold by a customer subsequent to the end of the second quarter.

### Outlook

The global economic environment has continued to be weak and uncertainty remains. Although certain markets have shown some recent signs of improvement, many geopolitical risks remain and growth has remained slow in the U.S., Canadian and European economies. Economic growth continues to decelerate in China and other parts of Asia. A prolonged or more significant downturn in an economy where the Company operates could negatively impact Order Bookings and may add to volatility in Order Bookings.

Many customers remain cautious in their approach to capital investment. Funnel activity in life sciences has remained strong and funnel activity in the transportation market has stabilized. Opportunities in energy markets are sporadic. 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 and proposal activity is robust; however, conversion of opportunities into Order Bookings is variable.

The Company's sales organization continues to work to engage customers on enterprise-type solutions. The Company expects that this 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 may cause variability in Order Bookings from quarter to quarter and, as is already the case, lengthen the performance period and revenue recognition for certain customer programs.

Due to the approximately \$70 million of Order Backlog which is on hold, the Company's Order Backlog which is available to be completed is approximately \$584 million. In the third quarter of fiscal 2017, management expects the conversion of the \$584 million of Order Backlog to be at the higher end of the 35% to 40% range. The expected conversion rate of Order Backlog available to be completed is based on current programs in Order Backlog and management's estimate of revenues from new Order Bookings in the quarter. As a result of the program in Order Backlog which is on hold, the Company expects its utilization and profitability to be negatively impacted in the third quarter of fiscal 2017. The program could remain on hold until as late as mid-December at which time management expects the customer may: (i) cancel the program outright; (ii) repurpose as much equipment as possible to a new program; or (iii) re-start the

existing program. Should the program re-start, management does not expect to be able to complete sufficient work on the program in order to have a material impact on third quarter revenues and profitability.

In the third quarter of fiscal 2017, management expects to undertake a review of its global capacity and cost structure.

The Company's efforts to expand its after-sales service offering is expected to provide some balance to its exposure to the capital expenditure cycle of its customers. However, the intended ramp-up of the Company's after-sales service revenues may not offset capital spending volatility in the short term.

The Company seeks to continue 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)

	<b>Three Months Ended October 2, 2016</b>	Three Months Ended September 27, 2015	<b>Six Months Ended October 2, 2016</b>	Six Months Ended September 27, 2015
Revenues	\$ 242.5	\$ 263.7	\$ 507.8	\$ 518.0
Cost of revenues	181.8	197.2	382.3	390.5
Selling, general, and administrative	41.2	42.3	82.5	83.3
Stock-based compensation	2.2	(0.2)	3.1	2.3
<b>Earnings from operations</b>	<b>\$ 17.3</b>	<b>\$ 24.4</b>	<b>\$ 39.9</b>	<b>\$ 41.9</b>
Net finance costs	6.4	7.4	13.0	11.8
Provision for income taxes	2.4	4.2	6.3	7.5
<b>Net income</b>	<b>\$ 8.5</b>	<b>\$ 12.8</b>	<b>\$ 20.6</b>	<b>\$ 22.6</b>
<b>Basic and diluted earnings per share</b>	<b>\$ 0.09</b>	<b>\$ 0.14</b>	<b>\$ 0.22</b>	<b>\$ 0.25</b>

**Revenues.** At \$242.5 million, consolidated revenues for the second quarter of fiscal 2017 were \$21.2 million or 8% lower than the corresponding period a year ago. At \$507.8 million, year-to-date revenues were \$10.2 million or 2% lower than in the corresponding period a year ago. See "Overview - Operating Results."

**Cost of revenues.** At \$181.8 million, second quarter fiscal 2017 cost of revenues decreased compared to the corresponding period a year ago by \$15.4 million or 8%. Year-to-date cost of revenues of \$382.3 million decreased \$8.2 million or 2%, primarily due to lower revenues. Gross margin was 25% for the second quarter of fiscal 2017 and the second quarter of fiscal 2016. Year-to-date gross margin was 25% for both fiscal 2017 and fiscal 2016.

**Selling, general and administrative ("SG&A") expenses.** SG&A expenses for the second quarter of fiscal 2017 were \$41.2 million, which included \$5.0 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 \$36.2 million in the second quarter of fiscal 2017. Comparably, SG&A expenses for the second quarter of fiscal 2016 were \$35.0 million, which excluded \$5.6 million of expenses related to the amortization of identifiable

intangible assets recorded on the acquisitions of PA, IWK, ATW and sortimat, and \$1.7 million of restructuring and severance costs. Higher SG&A expenses in the second quarter of fiscal 2017 primarily reflected higher professional fees and recruiting costs.

For the six months ended October 2, 2016, SG&A expenses were \$82.5 million, which included \$10.3 million of expenses related to the amortization of identifiable intangible assets recorded on the acquisitions of PA, IWK, ATW and sortimat. Excluding these costs, SG&A expenses were \$72.2 million for the six months ended October 2, 2016. Comparably, SG&A expenses for the six months ended September 27, 2015 were \$66.1 million, which excluded \$13.3 million of expenses related to the amortization of identifiable intangible assets recorded on the acquisitions of PA, IWK, ATW and sortimat, and \$3.9 million of restructuring and severance costs. Higher SG&A expenses primarily reflected higher professional fees, recruiting costs and foreign exchange rate changes which increased the translation of reported SG&A expenses of foreign-based subsidiaries due to the weakening of the Canadian dollar relative to the U.S. dollar and Euro.

**Stock-based compensation.** Stock-based compensation expense amounted to \$2.2 million in the second quarter of fiscal 2017 compared to a recovery of \$0.2 million in the corresponding period a year ago. For the six month period ended October 2, 2016, stock-based compensation expense increased to \$3.1 million from \$2.3 million a year earlier. The increase in stock-based compensation costs was attributable to higher expenses from stock options and the revaluation of deferred stock units, share appreciation rights, and restricted share units.

**Earnings from operations.** For the three and six month periods ended October 2, 2016, consolidated earnings from operations were \$17.3 million (7% operating margin) and \$39.9 million (8% operating margin) respectively, compared to earnings from operations of \$24.4 million (9% operating margin) and \$41.9 million (8% operating margin) million in the corresponding periods a year ago. See "Overview - Operating Results."

**Net finance costs.** Net finance costs were \$6.4 million in the second quarter of fiscal 2017, \$1.0 million lower than the corresponding period a year ago. The decrease was primarily due to the benefit of cross currency interest rate swaps, which were entered into in the fourth quarter of fiscal 2016 (see "Foreign Exchange"). For the six months ended October 2, 2016, finance costs were \$13.0 million compared to \$11.8 million in the corresponding period a year ago. The increase reflected interest on the Company's Senior Notes, which were issued in June 2015 (See "Liquidity, Cash Flow and Financial Resources").

**Income tax provision.** For the three and six months ended October 2, 2016, the Company's effective income tax rate of 22% and 23% respectively, differed from the combined Canadian basic federal and provincial income tax rate of 27% primarily as a result of income earned in certain jurisdictions with different statutory tax rates. The Company expects its effective tax rate to continue to be in the range of 25%.

**Net income.** Fiscal 2017 second quarter net income was \$8.5 million (9 cents per share basic and diluted) compared to \$12.8 million (14 cents per share basic and diluted) for the second quarter of fiscal 2016. Adjusted basic earnings per share were 13 cents in the second quarter of fiscal 2017 compared to 19 cents for the second quarter of fiscal 2016. See "Reconciliation of Non-IFRS Measures to IFRS Measures."

Net income for the six months ended October 2, 2016, was \$20.6 million (22 cents per share basic and diluted) compared to \$22.6 million (25 cents per share basic and diluted) for the corresponding period a year ago. Adjusted basic earnings per share were 30 cents in the six months ended October 2, 2016 compared to 37 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 tables reconcile EBITDA to the most directly comparable IFRS measure (net income):

	<b>Three Months Ended October 2, 2016</b>	Three Months Ended September 27, 2015
<b>EBITDA</b>	\$ 25.3	\$ 33.7
Less: depreciation and amortization expense	8.0	9.3
<b>Earnings from operations</b>	\$ 17.3	\$ 24.4
Less: net finance costs	6.4	7.4
Provision for income taxes	2.4	4.2
<b>Net income</b>	\$ 8.5	\$ 12.8

	<b>Six Months Ended October 2, 2016</b>	Six Months Ended September 27, 2015
<b>EBITDA</b>	\$ 56.8	\$ 62.4
Less: depreciation and amortization expense	16.9	20.5
<b>Earnings from operations</b>	\$ 39.9	\$ 41.9
Less: net finance costs	13.0	11.8
Provision for income taxes	6.3	7.5
<b>Net income</b>	\$ 20.6	\$ 22.6

The following tables reconcile adjusted earnings from operations and adjusted basic earnings per share to the most directly comparable IFRS measures (net income and basic earnings per share respectively):

	Three Months Ended October 2, 2016			Three Months Ended September 27, 2015		
	IFRS	Adjustments	Adjusted (non-IFRS)	IFRS	Adjustments	Adjusted (non-IFRS)
<b>Earnings from operations</b>	\$ 17.3	\$ —	\$ 17.3	\$ 24.4	\$ —	\$ 24.4
Amortization of acquisition-related intangible assets	—	5.0	5.0	—	5.6	5.6
Restructuring Charges	—	—	—	—	1.7	1.7
	\$ 17.3	\$ 5.0	\$ 22.3	\$ 24.4	\$ 7.3	\$ 31.7
Less: net finance costs	\$ 6.4	\$ —	\$ 6.4	\$ 7.4	\$ —	\$ 7.4
<b>Income before income taxes</b>	\$ 10.9	\$ 5.0	\$ 15.9	\$ 17.0	\$ 7.3	\$ 24.3
Provision for income taxes	\$ 2.4	\$ —	\$ 2.4	\$ 4.2	\$ —	\$ 4.2
Adjustment to provision for income taxes <sup>1</sup>	—	1.5	1.5	—	2.3	2.3
	\$ 2.4	\$ 1.5	\$ 3.9	\$ 4.2	\$ 2.3	\$ 6.5
<b>Net income</b>	\$ 8.5	\$ 3.5	\$ 12.0	\$ 12.8	\$ 5.0	\$ 17.8
<b>Basic earnings per share</b>	\$ 0.09	\$ 0.04	\$ 0.13	\$ 0.14	\$ 0.05	\$ 0.19

<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 2, 2016			Six Months Ended September 27, 2015		
	IFRS	Adjustments	Adjusted (non-IFRS)	IFRS	Adjustments	Adjusted (non-IFRS)
<b>Earnings from operations</b>	\$ 39.9	\$ —	\$ 39.9	\$ 41.9	\$ —	\$ 41.9
Amortization of acquisition-related intangible assets	—	10.3	10.3	—	13.3	13.3
Restructuring Charges	—	—	—	—	3.9	3.9
	\$ 39.9	\$ 10.3	\$ 50.2	\$ 41.9	\$ 17.2	\$ 59.1
Less: net finance costs	\$ 13.0	\$ —	\$ 13.0	\$ 11.8	\$ —	\$ 11.8
<b>Income before income taxes</b>	\$ 26.9	\$ 10.3	\$ 37.2	\$ 30.1	\$ 17.2	\$ 47.3
Provision for income taxes	\$ 6.3	\$ —	\$ 6.3	\$ 7.5	\$ —	\$ 7.5
Adjustment to provision for income taxes <sup>1</sup>	—	3.2	3.2	—	5.3	5.3
	\$ 6.3	\$ 3.2	\$ 9.5	\$ 7.5	\$ 5.3	\$ 12.8
<b>Net income</b>	\$ 20.6	\$ 7.1	\$ 27.7	\$ 22.6	\$ 11.9	\$ 34.5
<b>Basic earnings per share</b>	\$ 0.22	\$ 0.08	\$ 0.30	\$ 0.25	\$ 0.12	\$ 0.37

<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	October 2, 2016	March 31, 2016
Cash and cash equivalents	\$ 226.6	\$ 170.0
Debt-to-equity ratio	0.54:1	0.56:1

  

For the three months ended	October 2, 2016	September 27, 2015
Cash flows provided by (used in) operating activities	\$ 3.8	\$ (20.3)

At October 2, 2016, the Company had cash and cash equivalents of \$226.6 million compared to \$170.0 million at March 31, 2016. At October 2, 2016, the Company's debt-to-total-equity ratio was 0.54:1.

At October 2, 2016, the Company had \$642.4 million of unutilized multipurpose credit, including letters of credit, available under existing credit facilities and another \$2.5 million available under letter of credit facilities.

In three months ended October 2, 2016, cash flows provided by operating activities were \$3.8 million (\$20.3 million used in 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 large customer programs. In the six months ended October 2, 2016, cash flows provided by operating activities were \$61.3 million (\$29.5 million used in operating activities in the corresponding period a year ago). The increase 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 2017, the Company's investment in non-cash working capital increased by \$14.3 million from July 3, 2016. On a year-to-date basis, investment in non-cash working capital decreased \$22.3 million. Accounts receivable decreased 19% or \$36.9 million compared to March 31, 2016 due to timing of billings on certain customer contracts and improved collections. Net contracts in progress decreased 4% or \$3.4 million compared to March 31, 2016 due to timing of program activity. 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 6% or \$2.5 million compared to March 31, 2016 primarily due to the timing of inventory purchases. Deposits and prepaid assets increased 48% or \$10.7 million compared to March 31, 2016 due to the timing of program execution. Accounts payable and accrued liabilities were flat. Provisions decreased 5% or \$0.9 million compared to March 31, 2016.

Capital expenditures totalled \$4.3 million for the first six months of fiscal 2017, primarily related to computer hardware.

Intangible assets expenditures were \$3.3 million for the first six months of fiscal 2017, 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 will be 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.

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 2, 2016 the Company had utilized \$111.2 million under the Credit Facility by way of letters of credit (March 31, 2016 - \$115.1 million). The Credit Facility matures on August 29, 2018.

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 the 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 2, 2016, all of the covenants were met.

The Company has additional credit facilities available of \$12.6 million (3.5 million Euro, 275.0 million Indian Rupees, 50.0 million Thai Baht and 1.2 million Czech Koruna). The total amount outstanding on these facilities at October 2, 2016 was \$9.2 million, of which \$2.1 million was classified as bank indebtedness (March 31, 2016 - \$2.3 million) and \$7.1 million was classified as long-term debt (March 31, 2016 - \$7.1 million). The interest rates applicable to the credit facilities range from 1.66% to 10.00% per annum. A portion of the long-term debt is secured by certain

assets of the Company. The 275.0 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	\$ 10.3	\$ 75.5
One - two years	8.5	3.3
Two - three years	7.4	0.1
Three - four years	6.5	0.1
Four - five years	5.9	—
Due in over five years	6.5	—
	\$ 45.1	\$ 79.0

The Company's off-balance sheet arrangements consist of purchase obligations and various operating lease financing arrangements related primarily to facilities and equipment which have been 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 2, 2016, the total value of outstanding letters of credit was approximately \$131.5 million (March 31, 2016 - \$137.0 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. For further information related to the Company's use of derivative financial instruments, refer to note 7 of the interim condensed consolidated financial statements. 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 2017, 272,250 stock options were exercised. At November 8, 2016 the total number of shares outstanding was 92,565,609 and there were 3,442,116 stock options outstanding to acquire common shares of the Company.

### **Normal Course Issuer Bid**

On November 4, 2015, 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 had the ability to purchase for cancellation up to a maximum of 4,600,000 common shares, representing approximately 5% of the 92,541,582 common shares that were issued and outstanding as of October 31, 2015.

During fiscal 2016, the Company purchased 481,473 common shares for \$6.0 million under the NCIB. The weighted average price per share repurchased was \$12.45. No subsequent purchases were made in fiscal 2017. The NCIB expired on November 5, 2016.

### **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 2017.

### **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 a cross-currency swap 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 swap instrument to swap 134.1 million Euro into Canadian dollars. The Company will receive interest of 6.501% Canadian per annum and pay interest of 5.094% Euro. 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. See note 7 to the interim condensed consolidated financial statements for details on the derivative financial instruments outstanding at October 2, 2016.

#### Period average exchange rates in CDN\$

	Three months ended			Six months ended		
	October 2, 2016	September 27, 2015	% change	October 2, 2016	September 27, 2015	% change
U.S. Dollar	1.3047	1.3071	(0.2%)	1.2965	1.2679	2.3%
Euro	1.4573	1.4547	0.2%	1.4564	1.4073	3.5%

**CONSOLIDATED QUARTERLY RESULTS**  
(In millions of dollars, except per share amounts)

	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Revenues from continuing operations	\$ 242.5	\$ 265.4	\$ 246.8	\$ 274.9	\$ 263.7	\$ 254.3	\$ 289.4	\$ 248.8
Earnings from operations	\$ 17.3	\$ 22.6	\$ 8.1	\$ 26.8	\$ 24.4	\$ 17.5	\$ 22.6	\$ 15.9
Adjusted earnings from operations	\$ 22.3	\$ 27.9	\$ 23.2	\$ 32.1	\$ 31.7	\$ 27.4	\$ 34.7	\$ 27.2
Income from continuing operations	\$ 8.5	\$ 12.1	\$ 1.4	\$ 15.5	\$ 12.8	\$ 9.8	\$ 13.9	\$ 8.6
Income (loss) from discontinued operations	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2.2	\$ (0.0)
Net income	\$ 8.5	\$ 12.1	\$ 1.4	\$ 15.5	\$ 12.8	\$ 9.8	\$ 16.1	\$ 8.6
Basic and diluted earnings per share from continuing operations	\$ 0.09	\$ 0.13	\$ 0.02	\$ 0.16	\$ 0.14	\$ 0.11	\$ 0.15	\$ 0.09
Adjusted basic earnings per share from continuing operations	\$ 0.13	\$ 0.17	\$ 0.14	\$ 0.21	\$ 0.19	\$ 0.18	\$ 0.24	\$ 0.18
Basic and diluted earnings (loss) per share from discontinued operations	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 0.03	\$ (0.00)
Basic and diluted earnings per share	\$ 0.09	\$ 0.13	\$ 0.02	\$ 0.16	\$ 0.14	\$ 0.11	\$ 0.18	\$ 0.09
Order Bookings	\$ 289.0	\$ 239.0	\$ 390.0	\$ 228.0	\$ 230.0	\$ 222.0	\$ 317.0	\$ 287.0
Order Backlog <sup>(1)</sup>	\$ 654.0	\$ 610.0	\$ 652.0	\$ 546.0	\$ 589.0	\$ 590.0	\$ 632.0	\$ 602.0

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

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 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 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 fiscal 2016 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 2, 2016, 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: potential impact of general economic environment, including impact on Order Bookings; activity in the markets that the Company serves; the engagement with customers on enterprise solutions providing ATS with more strategic relationships, increased predictability, better program control and less sensitivity to macroeconomic forces; the expected impact of the sales organization's approach to market on Order Bookings, performance period, and timing of revenue recognition; the rate of completion of Order Backlog available to be completed; management's expectation of impact of the program that is on hold on utilization and profitability; expectation as to how long such project is to remain on hold, potential outcomes, and impact on third quarter revenues and

profitability; expected review of global capacity and cost structure; the Company's efforts to expand after-sales services 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; expectation 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; timing of customer decisions related to large enterprise programs and potential for greater 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 revenues from after-sales services are insufficient to offset capital spending volatility; 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 accruals have been made; 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.