

## **Fiscal 2000 – Second Quarter Report**

**October 28, 1999**

**Dear Shareholder:**

ATS Automation Tooling Systems Inc. reported a 65% increase in period end automation systems order backlog and solid results from core operations for the second quarter ended September 25, 1999.

**Net earnings** for the second quarter of fiscal 2000 were \$7.0 million (\$0.13 per share basic, \$0.12 cents fully diluted) on **revenue** of \$113.8 million, compared to net earnings of \$9.1 million (\$0.16 per share basic and fully diluted) on revenue of \$121.8 million in the same quarter of fiscal 1999, primarily reflecting the expected decline in contributions from the microelectronics contract.

In this quarter ATS achieved strong order bookings from diverse markets, record automation systems order backlog, and solid underlying growth in our core operations. Clearly, we are making excellent progress in creating future growth for ATS.

As expected, the Company's overall revenue growth was held back by the previously announced discontinuation of a major microelectronics contract. Excluding the \$24.6 million impact of this discontinuation on second quarter fiscal 2000 consolidated revenue, the Company's remaining businesses recorded 17% revenue growth over the comparable period of fiscal 1999. The contract discontinuation was the primary cause of a 41% reduction in revenue from the Company's computer-electronics market in the second quarter of fiscal 2000 and a 69% reduction in revenue contribution from Asia-Pacific. This overshadowed solid growth in consolidated revenue achieved in automotive markets (up 43%) and other markets, including healthcare and consumer products, where revenue increased 10%. By region, consolidated revenue grew 32% in the U.S. and Mexico, more than offsetting a 33% decline in Europe.

### **Consolidated Revenue By Industry** (\$ millions, except percentages)

	<b>13 weeks ended 9/25/99</b>	<b>% of Total</b>	13 weeks ended 9/26/98	% of Total
Automotive	\$ 63.0	55%	\$ 44.2	36%
Computer/Electronics	39.8	35	67.6	56
Other	11.0	10	10.0	8
Total	\$ 113.8	100%	\$ 121.8	100%

**Consolidated Revenue By Region**  
(\$ millions, except percentages)

	13 weeks ended 9/25/99	% of Total	13 weeks ended 9/26/98	% of Total
Canada	\$14.9	13%	\$14.7	12%
U.S. & Mexico	73.0	64	55.4	45
Europe	18.5	16	27.7	23
Asia-Pacific	7.4	7	24.0	20
<b>Total</b>	<b>\$ 113.8</b>	<b>100%</b>	<b>\$ 121.8</b>	<b>100%</b>

**Automation Systems Group** revenue increased 3% to \$83.6 million in the second quarter of fiscal 2000 from \$81.6 million in the second quarter of fiscal 1999 reflecting higher backlog entering the quarter and solid order booking activity. The recently (July 28, 1999) acquired companies Rettinger GmbH and Hamel GmbH of Munich, Germany contributed \$1.4 million to Group revenue in the quarter and contributed marginally to Group operating earnings.

**Precision Components Group** revenue was \$30.8 million compared to \$52.7 million in the comparable quarter of fiscal 1999. This decline was primarily due to the previously mentioned discontinuation of the microelectronics contract as well as the anticipated – and previously chronicled – temporary weak market conditions experienced by Photowatt International, our solar products subsidiary. Excluding the microelectronics contract impact and Photowatt, core Precision Components operations delivered 38% revenue growth in the second quarter over the comparable period of fiscal 1999.

**Consolidated operating earnings** for the second quarter of fiscal 2000 were \$12.4 million (10.9% margin) compared to \$15.2 million (12.5% margin) for the comparable quarter of fiscal 1999. This was primarily attributable to the year-over-year decline in Precision Components revenue. Operating margin was in line with the Company's expectations for fiscal 2000 of approximately 11%.

**Automation Systems Group operating margin** in the second quarter was 14.9% versus 19.9% in the same quarter last fiscal year. Last year's second quarter operating margin from Automation Systems Group, on a segmented basis, benefited from gross margin earned on high levels of inter-Group trading. Gross profit on inter-Group trading is eliminated upon consolidation. Excluding this effect, operating margin was lower due to a change in market mix – weaker conditions in computer-electronics – and a higher ratio of lower margin third party equipment and subcontracting to revenue in this most recent quarter.

**Precision Components Group operating margin** was 2.4% compared to 7.7% in the corresponding quarter of fiscal 1999. This reflected the negative impact of the declines in revenue from the microelectronics contract and to a lesser extent, weak performance by the Group's Photowatt division and investments in the new Precision Components facility in Texas.

## **First Half Results**

**Net earnings** for the 26 weeks ended September 25, 1999 were \$14.8 million (\$0.27 cents per share basic, \$0.26 cents per share fully diluted) versus \$17.4 million (\$0.31 cents per share basic, \$0.30 cents fully diluted) for the same period of fiscal 1999.

**Revenue** for the first half of fiscal 2000 was \$219.4 million, off 5% from \$230.9 million in the comparable period of fiscal 1999 primarily as a result of the change in the microelectronics contract. Growth in consolidated revenue was achieved in automotive markets (up 34%) and other markets – including healthcare and consumer products – where revenue increased 46%. Automation systems order bookings for the first half of fiscal 2000 were \$201 million, up 27% from \$159 million in the first half of fiscal 1999.

Excluding the impact of the microelectronics contract, consolidated revenue in the first half of fiscal 2000 was 10% higher than in the first half of fiscal 1999.

At September 25, 1999, ATS maintained a strong **balance sheet** with \$60.1 million in cash and short-term investments and a debt to equity ratio of 0.15:1.

## **Share Repurchase Program**

ATS has received regulatory approval to make a normal course issuer bid through the facilities of The Toronto Stock Exchange. We believe the shares of ATS represent an excellent investment and our exceptional balance sheet strength allows us to continue to fund aggressive business growth and implement the buy back.

Under the normal course issuer bid, ATS is authorized to purchase up to 2,400,000 of its common shares, representing 4.3% of the 55,589,740 common shares outstanding and 5% of the public float as of September 25, 1999. The permitted commencement date for the issuer bid is November 3, 1999 and it may continue until November 2, 2000. Purchases may be made from time to time at then prevailing open market prices and paid out of general corporate funds. All purchased shares will be cancelled. No shares will be knowingly purchased from Company insiders or their affiliates.

## **Year 2000**

The Company has in place a comprehensive Year 2000 Plan. Progress in this quarter has been in accordance with the Plan outlined in the Annual Report, with no material changes to report at this time. Year 2000 costs in the quarter were immaterial internal staff costs, and were expensed as incurred. While the Company's Plan includes all reasonable efforts to be prepared for the Year 2000, the Year 2000 readiness of third parties with which the Company has a material relationship is largely outside the Company's control. Consequently, it is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company and its products, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved.

## **Backlog and Management's Outlook**

**Automation systems order backlog** at September 25, 1999 was a record \$189 million, 65% higher than at the same time last fiscal year and up significantly from the previous record \$174 million at the end of the first quarter of fiscal 2000. As a result of the Company's recent success in penetrating new markets, order backlog for automation systems was more diverse than ever with 34% derived from healthcare and consumer products sectors (versus 9% at September 26, 1998), 44% from automotive (compared to 47% a year ago) and 22% from computer-electronics (44% last year). Automation Systems order bookings in the quarter were \$90 million versus \$70 million in the second quarter a year ago.

Our core businesses – including Precision Components, which made a strong revenue contribution in the quarter – continue to exhibit solid growth characteristics. Automation Systems Group in particular has achieved excellent results with its aggressive efforts to add new customers and build its order book. We are particularly pleased by our expansion this year into the healthcare marketplace which represents a strong new growth opportunity for ATS. Automation systems backlog also benefited from a \$9 million contribution from our newly acquired operations in Munich. Precision Components Group expects its core automotive market to continue to perform strongly for the balance of fiscal 2000 and we anticipate a recovery in revenue contribution from Photowatt based on new orders and improved market conditions.

Looking beyond the microelectronics contract, ATS is strongly positioned for growth in its core businesses in the second half and well beyond – based on the clear and powerful need for ATS solutions in our target markets.

Yours sincerely,

Klaus D. Woerner  
President and Chief Executive Officer

Lawrence G. Tapp  
Non-Executive Chairman of the Board

*Certain forward looking statements are made in this letter, including statements regarding possible future business. Investors are cautioned that such forward-looking statements involve risks and uncertainties, including, without limitation, continued acceptance of ATS' products, technologies, customer requirements and other risks detailed from time to time in ATS' periodic reports filed with Canadian regulatory authorities.*

# ATS AUTOMATION TOOLING SYSTEMS INC.

## Consolidated Statements of Earnings

(unaudited)

in thousands of dollars, except per share amounts

	twenty-six weeks ended		thirteen weeks ended	
	September 25 1999	September 26 1998	September 25 1999	September 26 1998
<b>Revenue</b>	\$ 219,357	\$ 230,918	\$ 113,817	\$ 121,793
Operating costs and expenses:				
Cost of revenue	161,397	167,254	84,441	87,297
Depreciation and amortization	9,769	10,753	5,067	5,995
Selling and administrative	23,534	24,510	11,884	13,279
	<b>24,657</b>	<b>28,401</b>	<b>12,425</b>	<b>15,222</b>
Other expenses (income):				
Interest on long-term debt	1,516	1,436	918	711
Other interest	(1,098)	(97)	(426)	80
	<b>418</b>	<b>1,339</b>	<b>492</b>	<b>791</b>
<b>Earnings before income taxes and minority interest</b>	<b>24,239</b>	<b>27,062</b>	<b>11,933</b>	<b>14,431</b>
Provision for income taxes	9,328	9,646	4,882	5,377
Minority interest in earnings of subsidiaries	80	27	48	3
<b>Net earnings</b>	<b>\$ 14,831</b>	<b>\$ 17,389</b>	<b>\$ 7,003</b>	<b>\$ 9,051</b>
<b>Weighted average number of shares outstanding:</b>				
Basic	55,540,866	55,350,702	55,585,783	55,380,699
Fully Diluted	58,037,709	57,410,538	58,103,196	57,428,719
<b>Net earnings per share:</b>				
Basic	\$ 0.27	\$ 0.31	\$ 0.13	\$ 0.16
Fully Diluted	\$ 0.26	\$ 0.30	\$ 0.12	\$ 0.16
<b>Supplementary Segmented Information</b>				
Revenue				
Automation Systems	\$ 161,344	\$ 157,864	\$ 83,619	\$ 81,565
Precision Components	58,886	93,280	30,847	52,691
Elimination of inter-segment revenue	(873)	(20,226)	(649)	(12,463)
Consolidated	<b>\$ 219,357</b>	<b>\$ 230,918</b>	<b>\$ 113,817</b>	<b>\$ 121,793</b>
Operating Income				
Automation Systems	\$ 25,120	\$ 30,920	\$ 12,457	\$ 16,254
Precision Components	866	5,803	746	4,075
Inter-segment elimination and other corporate expenses	(1,329)	(8,322)	(778)	(5,107)
Consolidated	<b>\$ 24,657</b>	<b>\$ 28,401</b>	<b>\$ 12,425</b>	<b>\$ 15,222</b>

# ATS AUTOMATION TOOLING SYSTEMS INC.

## Consolidated Balance Sheets (unaudited) in thousands of dollars

	September 25 1999	March 31 1999
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and short-term investments	\$ 60,068	\$ 65,937
Accounts receivable	77,135	85,183
Income taxes recoverable	1,695	-
Costs and earnings in excess of billings on contracts in progress	104,765	85,013
Inventories	42,891	41,914
Prepaid expenses and other current assets	1,943	977
	288,497	279,024
Fixed assets, net	133,485	136,162
Goodwill and other intangibles, at amortized cost	47,046	45,120
Other assets	20,244	20,768
	\$ 489,272	\$ 481,074
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 49,196	\$ 60,924
Billings in excess of costs and earnings on contracts in progress	31,504	30,257
Current portion of long-term debt	768	759
Future income taxes	18,092	15,757
Income taxes payable	-	1,822
	99,560	109,519
Long-term debt, less current portion	49,770	51,055
Future income taxes	9,986	4,178
Minority interest	2,041	1,983
<b>Shareholders' equity:</b>		
Share capital	195,543	194,319
Retained earnings	126,537	111,707
Cumulative translation adjustment	5,835	8,313
	327,915	314,339
	\$ 489,272	\$ 481,074

# ATS AUTOMATION TOOLING SYSTEMS INC.

## Consolidated Statements of Changes in Financial Position (unaudited) In thousands of dollars

	Twenty-six weeks ended	
	September 25 1999	September 26 1998
<b>Cash provided by (used in):</b>		
<b>Operating activities:</b>		
Net earnings	\$ 14,831	\$ 17,389
Items not involving cash	17,953	11,991
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Cash flow from operations	32,784	29,380
Change in non-cash operating working capital	(31,142)	(12,688)
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	1,642	16,692
<b>Investing activities:</b>		
Acquisition of interest in subsidiaries, net of cash	(303)	-
Acquisition of fixed assets	(8,327)	(28,584)
Other	(506)	(5,971)
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	(9,136)	(34,555)
<b>Financing activities:</b>		
Issuance of common shares	1,224	791
Change in long-term debt, net	(1,663)	2,434
Investment tax credits and other	2,064	(3,240)
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	1,625	(15)
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<b>Decrease in cash</b>	<b>(5,869)</b>	<b>(17,878)</b>
<b>Cash and short-term investments, beginning of period</b>	<b>65,937</b>	<b>25,402</b>
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<b>Cash and short-term investments, end of period</b>	<b>\$ 60,068</b>	<b>\$ 7,524</b>

## **Corporate Description**

ATS Automation Tooling Systems Inc. (Internet website address: [www.atsautomation.com](http://www.atsautomation.com)) is one of North America's leading designers and producers of turn-key automated manufacturing and test systems, which are used primarily by multinational corporations operating in a variety of industries: automotive, computer/electronics, consumer products and healthcare. The Company also makes precision components and sub-assemblies using its own custom-built manufacturing systems, process knowledge and automation technology. ATS employs approximately 2,500 people at 21 facilities in Canada, the United States, Europe and Asia-Pacific. The Company's shares are traded on The Toronto Stock Exchange under the symbol ATA.

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