

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended July 1, 2022

Or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____
Commission File No.: 001-35083

NOVANTA INC.

(Exact name of registrant as specified in its charter)

New Brunswick, Canada
(State or other jurisdiction of incorporation or organization)

98-0110412
(I.R.S. Employer Identification No.)

125 Middlesex Turnpike, Bedford, Massachusetts, USA
(Address of principal executive offices)

01730
(Zip Code)

Registrant's telephone number, including area code: (781) 266-5700

N/A

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common shares, no par value	NOVT	The Nasdaq Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

As of August 2, 2022, there were 35,642,770 of the Registrant's common shares, no par value, issued and outstanding.

NOVANTA INC.
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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

NOVANTA INC. CONSOLIDATED BALANCE SHEETS (In thousands of U.S. dollars or shares) (Unaudited)

	July 1, 2022	December 31, 2021
ASSETS		
Current assets		
Cash and cash equivalents	\$ 100,489	\$ 117,393
Accounts receivable, net of allowance of \$671 and \$556, respectively	129,808	115,617
Inventories	153,887	125,657
Prepaid income taxes and income taxes receivable	1,081	1,997
Prepaid expenses and other current assets	14,102	13,161
Total current assets	399,367	373,825
Property, plant and equipment, net	87,924	87,439
Operating lease assets	45,575	48,338
Deferred tax assets	7,379	12,206
Other assets	5,688	5,586
Intangible assets, net	193,499	220,989
Goodwill	466,411	479,500
Total assets	<u>\$ 1,205,843</u>	<u>\$ 1,227,883</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of long-term debt	\$ 4,678	\$ 5,097
Accounts payable	77,351	68,514
Income taxes payable	6,825	4,514
Current portion of operating lease liabilities	7,561	7,334
Accrued expenses and other current liabilities	101,985	98,479
Total current liabilities	198,400	183,938
Long-term debt	402,679	429,361
Operating lease liabilities	42,580	45,700
Deferred tax liabilities	17,688	33,738
Income taxes payable	5,320	4,217
Other liabilities	7,007	9,638
Total liabilities	673,674	706,592
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Preferred shares, no par value; Authorized shares: 7,000; No shares issued and outstanding	—	—
Common shares, no par value; Authorized shares: unlimited; Issued and outstanding: 35,623 and 35,601, respectively	423,856	423,856
Additional paid-in capital	46,146	53,768
Retained earnings	92,832	56,533
Accumulated other comprehensive loss	(30,665)	(12,866)
Total stockholders' equity	532,169	521,291
Total liabilities and stockholders' equity	<u>\$ 1,205,843</u>	<u>\$ 1,227,883</u>

The accompanying notes are an integral part of these consolidated financial statements.

NOVANTA INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands of U.S. dollars or shares, except per share amounts)
(Unaudited)

	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Revenue	\$ 215,356	\$ 167,523	\$ 419,572	\$ 330,107
Cost of revenue	120,111	95,117	234,051	188,961
Gross profit	95,245	72,406	185,521	141,146
Operating expenses:				
Research and development and engineering	21,588	16,954	42,517	35,636
Selling, general and administrative	40,538	31,240	79,890	62,893
Amortization of purchased intangible assets	7,173	3,586	14,515	7,161
Restructuring, acquisition, and related costs	2,655	4,634	1,025	8,365
Total operating expenses	71,954	56,414	137,947	114,055
Operating income	23,291	15,992	47,574	27,091
Interest income (expense), net	(2,757)	(1,378)	(5,866)	(2,786)
Foreign exchange transaction gains (losses), net	152	(76)	221	(333)
Other income (expense), net	68	(97)	(477)	(167)
Income before income taxes	20,754	14,441	41,452	23,805
Income tax provision (benefit)	3,275	2,777	5,153	831
Consolidated net income	<u>\$ 17,479</u>	<u>\$ 11,664</u>	<u>\$ 36,299</u>	<u>\$ 22,974</u>
Earnings per common share (Note 4):				
Basic	\$ 0.49	\$ 0.33	\$ 1.02	\$ 0.65
Diluted	\$ 0.49	\$ 0.33	\$ 1.01	\$ 0.64
Weighted average common shares outstanding—basic	35,609	35,374	35,573	35,326
Weighted average common shares outstanding—diluted	35,933	35,763	35,857	35,775

The accompanying notes are an integral part of these consolidated financial statements.

NOVANTA INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands of U.S. dollars)
(Unaudited)

	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Consolidated net income	\$ 17,479	\$ 11,664	\$ 36,299	\$ 22,974
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax (1)	(13,927)	136	(18,699)	(353)
Pension liability adjustments, net of tax (2)	587	262	900	383
Total other comprehensive income (loss)	(13,340)	398	(17,799)	30
Total consolidated comprehensive income	<u>\$ 4,139</u>	<u>\$ 12,062</u>	<u>\$ 18,500</u>	<u>\$ 23,004</u>

- (1) The tax effect on this component of comprehensive income (loss) was nominal for all periods presented.
- (2) The tax effect on this component of comprehensive income (loss) was nominal for all periods presented. See Note 3 to the Consolidated Financial Statements for the total amount of pension liability adjustments reclassified out of accumulated other comprehensive income (loss).

The accompanying notes are an integral part of these consolidated financial statements.

NOVANTA INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands of U.S. dollars or shares)
(Unaudited)

	Common Shares		Additional Paid-In	Retained	Accumulated Other	
	# of Shares	Amount	Capital	Earnings (Deficit)	Comprehensive Loss	Total
Three Months Ended July 1, 2022						
Balance at April 1, 2022	35,684	\$ 423,856	\$ 52,809	\$ 75,353	\$ (17,325)	\$ 534,693
Consolidated net income	—	—	—	17,479	—	17,479
Common shares issued under stock plans	37	—	—	—	—	—
Common shares withheld for taxes on vested stock awards	(14)	—	(1,744)	—	—	(1,744)
Repurchases of common shares	(84)	—	(10,000)	—	—	(10,000)
Share-based compensation	—	—	5,081	—	—	5,081
Other comprehensive income (loss), net of tax	—	—	—	—	(13,340)	(13,340)
Balance at July 1, 2022	35,623	\$ 423,856	\$ 46,146	\$ 92,832	\$ (30,665)	\$ 532,169
Six Months Ended July 1, 2022						
Balance at December 31, 2021	35,601	\$ 423,856	\$ 53,768	\$ 56,533	\$ (12,866)	\$ 521,291
Consolidated net income	—	—	—	36,299	—	36,299
Common shares issued under stock plans	171	—	—	—	—	—
Common shares withheld for taxes on vested stock awards	(65)	—	(9,477)	—	—	(9,477)
Repurchases of common shares	(84)	—	(10,000)	—	—	(10,000)
Share-based compensation	—	—	11,855	—	—	11,855
Other comprehensive income (loss), net of tax	—	—	—	—	(17,799)	(17,799)
Balance at July 1, 2022	35,623	\$ 423,856	\$ 46,146	\$ 92,832	\$ (30,665)	\$ 532,169
Three Months Ended July 2, 2021						
Balance at April 2, 2021	35,384	\$ 423,856	\$ 47,364	\$ 17,512	\$ (12,609)	\$ 476,123
Consolidated net income	—	—	—	11,664	—	11,664
Common shares issued under stock plans	106	—	—	—	—	—
Common shares withheld for taxes on vested stock awards	(1)	—	(156)	—	—	(156)
Share-based compensation	—	—	5,035	—	—	5,035
Other comprehensive income (loss), net of tax	—	—	—	—	398	398
Balance at July 2, 2021	35,489	\$ 423,856	\$ 52,243	\$ 29,176	\$ (12,211)	\$ 493,064
Six Months Ended July 2, 2021						
Balance at December 31, 2020	35,163	\$ 423,856	\$ 58,992	\$ 6,202	\$ (12,241)	\$ 476,809
Consolidated net income	—	—	—	22,974	—	22,974
Common shares issued under stock plans	460	—	—	—	—	—
Common shares withheld for taxes on vested stock awards	(134)	—	(18,428)	—	—	(18,428)
Share-based compensation	—	—	11,679	—	—	11,679
Other comprehensive income (loss), net of tax	—	—	—	—	\$ 30	30
Balance at July 2, 2021	35,489	\$ 423,856	\$ 52,243	\$ 29,176	\$ (12,211)	\$ 493,064

The accompanying notes are an integral part of these consolidated financial statements.

NOVANTA INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of U.S. dollars)
(Unaudited)

	Six Months Ended	
	July 1, 2022	July 2, 2021
Cash flows from operating activities:		
Consolidated net income	\$ 36,299	\$ 22,974
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	27,855	19,724
Provision for inventory excess and obsolescence	1,004	2,505
Share-based compensation	11,855	11,679
Deferred income taxes	(9,504)	(699)
Write-off of unamortized deferred financing costs	624	—
Other	375	682
Changes in assets and liabilities which (used)/provided cash, excluding effects from business acquisitions:		
Accounts receivable	(17,627)	(15,580)
Inventories	(33,509)	(5,645)
Prepaid income taxes, income taxes receivable, prepaid expenses and other current assets	(1,107)	(4,750)
Accounts payable, income taxes payable, accrued expenses and other current liabilities	20,365	22,059
Other non-current assets and liabilities	(1,222)	(935)
Net cash provided by operating activities	<u>35,408</u>	<u>52,014</u>
Cash flows from investing activities:		
Working capital adjustments from business acquisition	820	—
Purchases of property, plant and equipment	(12,103)	(8,643)
Payment of contingent consideration related to acquisition of technology assets	(1,470)	(2,200)
Other investing activities	137	—
Net cash used in investing activities	<u>(12,616)</u>	<u>(10,843)</u>
Cash flows from financing activities:		
Repayments under term loan and revolving credit facilities	(12,833)	(2,706)
Payments of debt issuance costs	(2,492)	—
Payments of withholding taxes from share-based awards	(9,477)	(18,428)
Repurchases of common shares	(10,000)	-
Payment of contingent consideration related to acquisitions	(375)	(1,836)
Purchase of a building under finance lease	—	(8,743)
Other financing activities	(296)	(281)
Net cash used in financing activities	<u>(35,473)</u>	<u>(31,994)</u>
Effect of exchange rates on cash and cash equivalents	(4,223)	(378)
Increase (decrease) in cash and cash equivalents	(16,904)	8,799
Cash and cash equivalents, beginning of the period	117,393	125,054
Cash and cash equivalents, end of the period	<u>\$ 100,489</u>	<u>\$ 133,853</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 5,244	\$ 2,240
Cash paid for income taxes	\$ 9,698	\$ 6,734
Income tax refunds received	\$ 164	\$ 1,199

The accompanying notes are an integral part of these consolidated financial statements.

NOVANTA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF JULY 1, 2022
(Unaudited)

1. Basis of Presentation

Novanta Inc. (together with its subsidiaries, “Novanta” or the “Company”) is a leading global supplier of core technology solutions that give medical and advanced industrial original equipment manufacturers (“OEMs”) a competitive advantage. Novanta combines deep proprietary technology expertise and competencies in photonics, vision and precision motion with a proven ability to solve complex technical challenges. This enables Novanta to engineer core components and sub-systems that deliver extreme precision and performance, tailored to the customers’ demanding applications.

The accompanying unaudited interim consolidated financial statements have been prepared by the Company in United States (“U.S.”) dollars and pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”), the instructions to Form 10-Q and the provisions of Regulation S-X pertaining to interim financial statements. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the U.S. have been condensed or omitted. The interim consolidated financial statements and notes included in this report should be read in conjunction with the consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021. In the opinion of management, these interim consolidated financial statements include all adjustments and accruals of a normal and recurring nature necessary to fairly state the results of the interim periods presented. The results for interim periods are not necessarily indicative of results to be expected for the full year or for any future periods.

The Company’s unaudited interim consolidated financial statements are prepared for each quarterly period ending on the Friday closest to the end of the calendar quarter, with the exception of the fourth quarter which always ends on December 31.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the dates of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. Estimates and assumptions are reviewed on an on-going basis and the effects of revisions are reflected in the period in which such revisions are deemed to be necessary. The Company evaluates its estimates based on historical experience, current conditions, and various other assumptions that it believes are reasonable under the circumstances. Actual results could differ significantly from these estimates.

NOVANTA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
AS OF JULY 1, 2022
(Unaudited)

Recent Accounting Pronouncements

The following table provides a brief description of recent Accounting Standards Updates (“ASU”) issued by the Financial Accounting Standards Board (“FASB”):

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
In March 2020, the FASB issued ASU 2020-04, “Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.”	ASU 2020-04 provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met.	Upon issuance. Adoption of ASU 2020-04 is elective.	In March 2022, the Company amended the Third Amended and Restated Credit Agreement and replaced LIBOR with SOFR as the new reference rate for U.S. dollar borrowings. The ASU did not have any impact on the Company’s consolidated financial statements.
In October 2021, the FASB issued ASU 2021-08, “Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers.”	ASU 2021-08 requires that entities recognize and measure contract assets and liabilities acquired in a business combination in accordance with ASC 606, “Revenue from Contracts with Customers”. ASU 2021-08 also applies to contract assets or liabilities from other contracts to which the provisions of ASC 606 apply. The amendments in ASU 2021-08 do not affect the accounting for other assets or liabilities that may arise from revenue contracts with customers in accordance with ASC 606, such as refund liabilities, or in a business combination, such as customer-related intangible assets and contract-based intangible assets.	January 1, 2023. Early adoption is permitted.	The Company early adopted ASU 2021-08 as of January 1, 2022. The adoption of ASU 2021-08 did not have any material impact on the Company’s consolidated financial statements.

2. Revenue

The Company recognizes revenue when control of promised goods or services is transferred to customers. The transfer of control generally occurs upon shipment when title and risk of loss pass to the customer. The vast majority of the Company’s revenue is generated from the sale of distinct products. Revenue is measured as the amount of consideration the Company expects to receive in exchange for such products, which is generally at contractually stated prices. Sales taxes and value added taxes collected concurrently with revenue generating activities are excluded from revenue.

Performance Obligations

Substantially all of the Company’s revenue is recognized at a point in time, upon shipment, rather than over time.

At the request of its customers, the Company may perform professional services, generally for the maintenance and repair of products previously sold to those customers and for engineering services. Professional services for the maintenance and repair of products are typically short in duration, mostly less than one month, and generally involve a single distinct performance obligation. The related revenue is recognized at a point in time when control transfers to the customer upon completion of professional services. The consideration expected to be received in exchange for such services is typically the contractually stated amount. Certain engineering services are longer in duration and the related revenue is recognized over time. As the Company’s right to payment from a customer is based on the value of engineering services performed, the Company recognizes revenue based on the corresponding value to the customer from the Company’s performance completed to date. Revenue from engineering services aggregated to less than 3% of the Company’s consolidated revenue during the six months ended July 1, 2022 and July 2, 2021.

NOVANTA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
AS OF JULY 1, 2022
(Unaudited)

The Company occasionally sells separately priced non-standard/extended warranty services or preventative maintenance plans with the sale of products. The transfer of control over the service plans is over time. The Company recognizes the related revenue ratably over the terms of the service plans. The transaction price of a contract is allocated to each performance obligation based on its relative standalone selling price. Standalone selling prices are generally determined based on the prices charged to customers or using the expected cost plus a margin.

Shipping & Handling Costs

The Company accounts for shipping and handling activities that occur after the transfer of control over the related goods as fulfillment activities rather than performance obligations. Shipping and handling fees charged to customers are recognized as revenue and the related costs are recorded in cost of revenue at the time of transfer of control.

Warranties

The standard warranty periods for the Company's products are typically 12 months to 36 months. The Company recognizes estimated liabilities associated with standard warranty periods for its products in accordance with the provisions of ASC 450, "Contingencies," as the Company has the ability to ascertain the likelihood of the liabilities and can reasonably estimate the amount of the liabilities. A provision for the estimated cost related to standard warranties is recorded as cost of revenue at the time revenue is recognized. The Company's estimate of the costs to service the warranty obligations is based on historical experience and expectations of future conditions. To the extent that the Company's experience in warranty claims or costs associated with servicing those claims differ from the original estimates, revisions to the estimated warranty liabilities are recorded at that time, with offsetting adjustments to cost of revenue.

Practical Expedients and Exemptions

The Company expenses incremental direct costs of obtaining a contract when incurred because the expected amortization period is one year or less. These costs are recorded within selling, general and administrative expenses in the consolidated statement of operations.

The Company does not adjust the promised amount of consideration for the effects of a financing component because the transfer of a promised good to a customer and the customer's payment for that good are typically one year or less. The Company does not disclose the value of the remaining performance obligation for contracts with an original expected length of one year or less.

Contract Liabilities

Contract liabilities consist of deferred revenue and advance payments from customers, including amounts that are refundable. These contract liabilities are classified as either current or long-term liabilities in the consolidated balance sheet based on the timing of when the Company expects to recognize the related revenue. As of July 1, 2022 and December 31, 2021, contract liabilities were \$7.9 million and \$7.3 million, respectively, and are included in accrued expenses and other current liabilities and other liabilities in the accompanying consolidated balance sheets. The increase in the contract liability balance during the six months ended July 1, 2022 is primarily due to cash payments received in advance of satisfying performance obligations, partially offset by \$3.6 million of revenue recognized during the period that was included in the contract liability balance as of December 31, 2021.

Disaggregated Revenue

See Note 15 for the Company's disaggregation of revenue by segment, geography and end market.

NOVANTA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
AS OF JULY 1, 2022
(Unaudited)

3. Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive loss was as follows (in thousands):

	Total Accumulated Other Comprehensive Loss	Cumulative Translation Adjustments	Pension Liability Adjustments
Balance at December 31, 2021	\$ (12,866)	\$ (5,753)	\$ (7,113)
Other comprehensive income (loss)	(18,009)	(18,699)	690
Amounts reclassified from accumulated other comprehensive loss	210	—	210
Balance at July 1, 2022	<u>\$ (30,665)</u>	<u>\$ (24,452)</u>	<u>\$ (6,213)</u>

The amounts reclassified from accumulated other comprehensive loss were included in other income (expense) in the consolidated statements of operations.

4. Earnings per Common Share

Basic earnings per common share is computed by dividing consolidated net income by the weighted average number of common shares outstanding during the period.

For diluted earnings per common share, the denominator includes the dilutive effect of outstanding common share equivalents. For the three and six months ended July 1, 2022 and July 2, 2021, weighted average shares outstanding for the diluted earnings per common share included the dilutive effect of outstanding restricted stock units, stock options, relative total shareholder return performance-based restricted stock units (“TSR-PSUs”) and certain other performance-based restricted stock units (“PSUs”), determined using the treasury stock method. The dilutive effects of market-based contingently issuable shares from the TSR-PSUs are included in the weighted average common share calculation based on the number of shares, if any, that would be issuable as of the end of the reporting period, assuming the end of the reporting period is also the end of the performance period. The dilutive effects of attainment-based contingently issuable shares from other PSUs are included in the weighted average common share calculation only when the performance targets have been achieved based on the cumulative achievement against the performance targets as of the end of the reporting period.

The following table sets forth the computation of basic and diluted earnings per common share (amounts in thousands, except per share data):

	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Numerators:				
Consolidated net income	<u>\$ 17,479</u>	<u>\$ 11,664</u>	<u>\$ 36,299</u>	<u>\$ 22,974</u>
Denominators:				
Weighted average common shares outstanding— basic	35,609	35,374	35,573	35,326
Dilutive potential common shares	<u>324</u>	<u>389</u>	<u>284</u>	<u>449</u>
Weighted average common shares outstanding— diluted	<u>35,933</u>	<u>35,763</u>	<u>35,857</u>	<u>35,775</u>
Antidilutive potential common shares excluded from above	146	25	120	23
Earnings per Common Share:				
Basic	\$ 0.49	\$ 0.33	\$ 1.02	\$ 0.65
Diluted	\$ 0.49	\$ 0.33	\$ 1.01	\$ 0.64

For both the three and six months ended July 1, 2022, 35 thousand non-GAAP EPS performance-based restricted stock units (“EPS-PSUs”) and 37 thousand operating cash flow performance-based restricted stock units (“OCF-PSUs”) granted to certain members of the executive management team, and 53 thousand performance-based restricted stock units granted to ATI Industrial

NOVANTA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
AS OF JULY 1, 2022
(Unaudited)

Automation employees (“ATI-PSUs”) are considered attainment-based contingently issuable shares and were excluded from the calculation of the denominator as the contingent conditions had not been met as of July 1, 2022.

For both the three and six months ended July 2, 2021, 46 thousand EPS-PSUs and 37 thousand OCF-PSUs granted to certain members of the executive management team, and 213 thousand shares of restricted stock issued to the former Laser Quantum non-controlling interest shareholders were considered attainment-based contingently issuable shares and were excluded from the calculation of the denominator as the contingent conditions had not been met as of July 2, 2021.

5. Fair Value Measurements

ASC 820, “Fair Value Measurements,” establishes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the third is considered unobservable:

- Level 1: Quoted prices for identical assets or liabilities in active markets which the Company can access
- Level 2: Observable inputs other than those described in Level 1
- Level 3: Unobservable inputs

Current Assets and Liabilities

The Company’s cash equivalents are highly liquid investments with original maturities of three months or less, which represent an asset the Company measures at fair value on a recurring basis. The Company determines the fair value of cash equivalents using a market approach based on quoted prices in active markets. The fair values of cash, accounts receivable, income taxes receivable, accounts payable, income taxes payable and accrued expenses and other current liabilities approximate their carrying values because of their short-term nature.

Foreign Currency Contracts

The Company addresses market risks from changes in foreign currency exchange rates through a risk management program that includes the use of derivative financial instruments to mitigate certain balance sheet foreign currency transaction exposures. The Company uses foreign currency forward contracts as a part of its strategy to manage exposures related to foreign currency denominated monetary assets and liabilities. The fair value of these foreign currency forward contracts is reported either in other current assets or in other current liabilities as of the end of the period.

Contingent Considerations

On August 30, 2021, the Company acquired ATI Industrial Automation Inc. (“ATI”). Under the purchase and sale agreement for the ATI acquisition, the former shareholders of ATI (the “Sellers”) are eligible to receive contingent consideration based on ATI’s fiscal year 2021 Adjusted EBITDA, as defined in the purchase and sale agreement. The contingent consideration will be payable in the third quarter of 2022. The estimated fair value of the contingent consideration was determined based on the Monte Carlo valuation method and was recorded as part of the purchase price as of the acquisition date. Subsequent changes in the estimated fair value are recorded in the consolidated statement of operations in restructuring, acquisition, and related costs until the liability is fully settled. The fair value of the contingent consideration was \$44.0 million as of December 31, 2021. During the three months ended July 1, 2022, the fair value of the contingent consideration was adjusted to \$45.0 million based on the final determination of ATI’s 2021 Adjusted EBITDA between the Company and the Sellers.

On July 31, 2019, the Company acquired ARGES GmbH (“ARGES”). Under the purchase and sale agreement for the ARGES acquisition, the former owner of ARGES is eligible to receive contingent consideration based on the achievement of certain revenue targets by the Company from August 2019 through December 2026. The undiscounted range of possible contingent consideration is zero to €10.0 million (\$11.1 million). If the revenue targets are achieved, the contingent consideration would be payable annually with the first payment due in the first quarter of 2021. The estimated fair value of the contingent consideration of €7.1 million (\$7.9 million) was determined based on the Monte Carlo valuation method and was recorded as part of the purchase price as of the acquisition date. Subsequent changes in the estimated fair value of the contingent consideration liability are recorded in the consolidated statement of operations in restructuring, acquisition, and related costs until the liability is fully settled. During 2020, the fair value of the contingent consideration was adjusted to €4.1 million (\$5.1 million). During 2021, the Company made the first

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installment payment of €0.4 million (\$0.4 million) in March 2021 and adjusted the fair value of the contingent consideration to €3.3 million (\$3.8 million) as of December 31, 2021. During 2022, the Company made the second installment payment of €0.3 million (\$0.4 million) in March 2022. The installment payments are reported as cash outflows from financing activities in the consolidated statement of cash flows for the respective periods. Based on the revenue performance and revenue projection as of April 1, 2022, the fair value of the remaining contingent consideration was adjusted to €1.4 million (\$1.4 million). There were no other changes in the fair value of the contingent consideration during the three and six months ended July 1, 2022.

On April 16, 2019, the Company acquired Ingenia CAT, S.L. (“Ingenia”). Under the purchase and sale agreement for the Ingenia acquisition, the shareholders of Ingenia are eligible to receive contingent consideration based on the achievement of certain revenue targets by the Company from April 2019 through March 2022. The undiscounted range of possible contingent consideration is zero to €8.0 million (\$9.0 million). If the revenue targets are achieved, the contingent consideration would be payable in cash in three annual installments from 2020 to 2022. The estimated fair value of the contingent consideration of €5.8 million (\$6.6 million) was determined based on the Monte Carlo valuation method and was recorded as part of the purchase price as of the acquisition date. Subsequent changes in the estimated fair value of the contingent consideration liability are recorded in the consolidated statement of operations in restructuring, acquisition, and related costs until the liability is fully settled. During 2020, the Company made the first installment payment of €1.0 million (\$1.1 million) in May 2020 and adjusted the fair value of the contingent consideration to €2.3 million (\$2.9 million) as of the end of the year. During 2021, the Company made the second installment payment of €1.2 million (\$1.4 million) in May 2021 and adjusted the fair value of the contingent consideration to €1.5 million (\$1.7 million) as of the end of the year. The installment payments are reported as cash outflows from financing activities in the consolidated statement of cash flows for the respective periods. During the six months ended July 1, 2022, the fair value of the remaining contingent consideration was adjusted to €1.8 million (\$1.9 million), which is expected to be paid during the three months ending October 1, 2022.

On December 14, 2016, the Company acquired certain video signal processing and management technologies used in medical visualization solutions. Under the purchase and sale agreement, the former owners are eligible to receive contingent consideration based on the achievement of certain revenue targets by the Company from 2018 to 2021 from products utilizing the acquired technologies. The undiscounted range of possible contingent consideration is zero to €5.5 million (\$6.6 million). If the revenue targets are achieved, the contingent consideration would be payable in cash in four installments from 2019 to 2022. As the acquired assets did not meet the definition of a business, the fair value of the contingent consideration is recognized when probable and estimable and is capitalized as part of the cost of the acquired assets. Subsequent changes in the estimated fair value of this contingent liability are recorded as adjustments to the carrying value of the assets acquired and are amortized over the remaining useful life of the underlying assets. Based on revenue achievements against the target, the Company had recognized an aggregate fair value of €5.5 million (\$6.3 million) of the acquired intangible assets as of July 1, 2022. The Company made the first installment payment of €2.4 million (\$2.6 million) in February 2020, the second installment payment of €1.8 million (\$2.2 million) in February 2021, and the final installment payment of €1.3 million (\$1.5 million) in March 2022. The installment payments have been reported as cash outflows from investing activities in the consolidated statements of cash flows. There were no other changes in the fair value of the contingent consideration during the three and six month ended July 1, 2022.

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Summary by Fair Value Hierarchy

The following table summarizes the fair values of the Company's assets and liabilities measured at fair value on a recurring basis as of July 1, 2022 (in thousands):

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets				
Cash equivalents	\$ 1,045	\$ 1,045	\$ —	\$ —
Prepaid expenses and other current assets:				
Foreign currency forward contracts	298	—	298	—
	<u>\$ 1,343</u>	<u>\$ 1,045</u>	<u>\$ 298</u>	<u>\$ —</u>
Liabilities				
Accrued expenses and other current liabilities:				
Contingent considerations - Current	\$ 47,170	\$ —	\$ —	\$ 47,170
Foreign currency forward contracts	268	—	268	—
Other liabilities:				
Contingent considerations - Long-term	1,183	—	—	1,183
	<u>\$ 48,621</u>	<u>\$ —</u>	<u>\$ 268</u>	<u>\$ 48,353</u>

The following table summarizes the fair values of the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2021 (in thousands):

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets				
Cash equivalents	\$ 1,711	\$ 1,711	\$ —	\$ —
Prepaid expenses and other current assets:				
Foreign currency forward contracts	137	—	137	—
	<u>\$ 1,848</u>	<u>\$ 1,711</u>	<u>\$ 137</u>	<u>\$ —</u>
Liabilities				
Accrued expenses and other current liabilities:				
Contingent considerations - Current	\$ 47,522	\$ —	\$ —	\$ 47,522
Foreign currency forward contracts	160	—	160	—
Other liabilities:				
Contingent considerations - Long-term	3,402	—	—	3,402
	<u>\$ 51,084</u>	<u>\$ —</u>	<u>\$ 160</u>	<u>\$ 50,924</u>

Changes in the fair value of Level 3 contingent considerations during the six months ended July 1, 2022 were as follows (in thousands):

	Amount
Balance at December 31, 2021	\$ 50,924
Payments	(1,845)
Fair value adjustments	(419)
Effect of foreign exchange rates	(307)
Balance at July 1, 2022	<u>\$ 48,353</u>

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The following table provides qualitative information associated with the fair value measurement of the Company's Level 3 liabilities as of July 1, 2022:

<u>Liability</u>	<u>Fair Value (in thousands)</u>	<u>Valuation Technique</u>	<u>Unobservable Inputs</u>	<u>Percentage Applied</u>
Contingent consideration - ATI	\$45,000	N/A	Adjusted EBITDA for fiscal year 2021	N/A
Contingent consideration - ARGES	\$1,428	Monte Carlo method	Historical and projected revenues from August 2019 through December 2026	N/A
			Revenue volatility	14.0%
			Cost of debt	3.9%
			Discount rate	2.6%
Contingent consideration - Ingenia	\$1,925	N/A	Historical revenues from April 2019 through March 2022	N/A

Increases or decreases in the unobservable inputs noted above would result in a higher or lower fair value measurement.

See Note 9 to Consolidated Financial Statements for a discussion of the estimated fair value of the Company's outstanding debt.

6. Foreign Currency Contracts

The Company addresses market risks from changes in foreign currency exchange rates through a risk management program that includes the use of derivative financial instruments to mitigate certain foreign currency transaction exposures from future settlement of non-functional currency monetary assets and liabilities as of the end of a period. The Company does not enter into derivative transactions for speculative purposes. Gains and losses on derivative financial instruments substantially offset losses and gains on the underlying hedged exposures. Furthermore, the Company manages its exposures to counterparty risks on derivative instruments by entering into contracts with a diversified group of major financial institutions and by actively monitoring outstanding positions.

As of July 1, 2022, the aggregate notional amount and fair value of the Company's foreign currency forward contracts was \$58.7 million and a net gain of less than \$0.1 million, respectively. As of December 31, 2021, the aggregate notional amount and fair value of the Company's foreign currency forward contracts was \$50.0 million and a net loss of less than \$0.1 million, respectively.

The Company recognized an aggregate net loss of \$1.4 million and \$1.5 million for the three and six months ended July 1, 2022, respectively. The Company recognized an aggregate net loss of \$0.1 million and an aggregate net gain of \$0.6 million for the three and six months ended July 2, 2021, respectively. These amounts were included in foreign exchange transaction gains (losses) in the consolidated statements of operations.

7. Goodwill and Intangible Assets

Goodwill

Goodwill is recorded when the consideration for a business combination exceeds the fair value of net tangible and identifiable intangible assets acquired. The Company tests its goodwill balances for impairment annually as of the beginning of the second quarter or more frequently if indicators are present or changes in circumstances suggest that an impairment may exist. The Company performed the most recent annual goodwill and indefinite-lived intangible asset impairment test as of the beginning of the second quarter of 2022 and noted no impairment.

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The following table summarizes changes in goodwill during the six months ended July 1, 2022 (in thousands):

Balance at beginning of the period	\$ 479,500
Effect of foreign exchange rate changes	(13,089)
Balance at end of the period	<u>\$ 466,411</u>

Goodwill by reportable segment as of July 1, 2022 was as follows (in thousands):

	Reportable Segment			Total
	Photonics	Vision	Precision Motion	
Goodwill	\$ 207,646	\$ 156,223	\$ 253,771	\$ 617,640
Accumulated impairment of goodwill	(102,461)	(31,722)	(17,046)	(151,229)
Total	<u>\$ 105,185</u>	<u>\$ 124,501</u>	<u>\$ 236,725</u>	<u>\$ 466,411</u>

Goodwill by reportable segment as of December 31, 2021 was as follows (in thousands):

	Reportable Segment			Total
	Photonics	Vision	Precision Motion	
Goodwill	\$ 214,564	\$ 160,675	\$ 255,490	\$ 630,729
Accumulated impairment of goodwill	(102,461)	(31,722)	(17,046)	(151,229)
Total	<u>\$ 112,103</u>	<u>\$ 128,953</u>	<u>\$ 238,444</u>	<u>\$ 479,500</u>

Intangible Assets

Intangible assets as of July 1, 2022 and December 31, 2021, respectively, are summarized as follows (in thousands):

	July 1, 2022			December 31, 2021		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable intangible assets:						
Patents and developed technologies	\$ 183,807	\$ (125,291)	\$ 58,516	\$ 189,609	\$ (122,130)	\$ 67,479
Customer relationships	221,306	(111,021)	110,285	228,656	(104,386)	124,270
Customer backlog	6,831	(5,693)	1,138	6,862	(2,254)	4,608
Trademarks and trade names	23,255	(12,722)	10,533	23,976	(12,371)	11,605
Amortizable intangible assets	<u>435,199</u>	<u>(254,727)</u>	<u>180,472</u>	<u>449,103</u>	<u>(241,141)</u>	<u>207,962</u>
Non-amortizable intangible assets:						
Trade names	13,027	—	13,027	13,027	—	13,027
Totals	<u>\$ 448,226</u>	<u>\$ (254,727)</u>	<u>\$ 193,499</u>	<u>\$ 462,130</u>	<u>\$ (241,141)</u>	<u>\$ 220,989</u>

All definite-lived intangible assets are amortized either on a straight-line basis or an economic benefit basis over their remaining estimated useful life. Amortization expense for patents and developed technologies is included in cost of revenue in the accompanying consolidated statements of operations. Amortization expense for customer relationships and definite-lived trademarks, trade names and other intangibles is included in operating expenses in the accompanying consolidated statements of operations. Amortization expense was as follows (in thousands):

	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Amortization expense – cost of revenue	\$ 3,336	\$ 2,982	\$ 6,757	\$ 5,959
Amortization expense – operating expenses	7,173	3,586	14,515	7,161
Total amortization expense	<u>\$ 10,509</u>	<u>\$ 6,568</u>	<u>\$ 21,272</u>	<u>\$ 13,120</u>

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Estimated amortization expense for each of the five succeeding years and thereafter as of July 1, 2022 was as follows (in thousands):

Year Ending December 31,	Cost of Revenue	Operating Expenses	Total
2022 (remainder of year)	\$ 6,599	\$ 11,957	\$ 18,556
2023	11,976	20,215	32,191
2024	9,737	16,961	26,698
2025	8,265	14,348	22,613
2026	6,916	12,200	19,116
Thereafter	15,023	46,275	61,298
Total	<u>\$ 58,516</u>	<u>\$ 121,956</u>	<u>\$ 180,472</u>

8. Supplementary Balance Sheet Information

The following tables provide the details of selected balance sheet items as of the periods indicated (in thousands):

Inventories

	July 1, 2022	December 31, 2021
Raw materials	\$ 104,106	\$ 84,038
Work-in-process	26,106	20,600
Finished goods	22,289	19,486
Demo and consigned inventory	1,386	1,533
Total inventories	<u>\$ 153,887</u>	<u>\$ 125,657</u>

Accrued Expenses and Other Current Liabilities

	July 1, 2022	December 31, 2021
Accrued compensation and benefits	\$ 26,570	\$ 24,725
Accrued warranty	4,741	4,783
Contract liabilities, current portion	7,674	6,995
Finance lease obligations	634	599
Accrued contingent considerations and earn-outs	47,170	47,522
Other	15,196	13,855
Total	<u>\$ 101,985</u>	<u>\$ 98,479</u>

Accrued Warranty

	Six Months Ended	
	July 1, 2022	July 2, 2021
Balance at beginning of the period	\$ 4,783	\$ 4,919
Provision charged to cost of revenue	1,462	929
Use of provision	(1,398)	(1,254)
Foreign currency exchange rate changes	(106)	(29)
Balance at end of the period	<u>\$ 4,741</u>	<u>\$ 4,565</u>

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Other Long-Term Liabilities

	July 1, 2022	December 31, 2021
Finance lease obligations	\$ 4,996	\$ 5,309
Accrued contingent considerations and earn-outs	1,183	3,402
Other	828	927
Total	<u>\$ 7,007</u>	<u>\$ 9,638</u>

9. Debt

Debt consisted of the following (in thousands):

	July 1, 2022	December 31, 2021
Senior Credit Facilities – term loan	\$ 4,713	\$ 5,126
Less: unamortized debt issuance costs	(35)	(29)
Total current portion of long-term debt	<u>\$ 4,678</u>	<u>\$ 5,097</u>
Senior Credit Facilities – term loan	\$ 77,521	\$ 86,879
Senior Credit Facilities – revolving credit facility	330,559	346,579
Less: unamortized debt issuance costs	(5,401)	(4,097)
Total long-term debt	<u>\$ 402,679</u>	<u>\$ 429,361</u>
Total Senior Credit Facilities	<u>\$ 407,357</u>	<u>\$ 434,458</u>

Senior Credit Facilities

On December 31, 2019, the Company entered into an amended and restated credit agreement (the “Third Amended and Restated Credit Agreement”) with existing lenders for an aggregate credit facility of \$450.0 million, consisting of a \$100.0 million U.S. dollar equivalent euro-denominated (approximately €90.2 million) 5-year term loan facility and a \$350.0 million 5-year revolving credit facility (collectively, the “Senior Credit Facilities”). The Senior Credit Facilities mature in December 2024 and includes an uncommitted accordion option pursuant to which the commitments under the revolving credit facility may be increased by an additional \$200.0 million in aggregate, subject to certain customary conditions.

The outstanding principal balance under the term loan facility is payable in quarterly installments of €1.1 million beginning in March 2020, with the remaining balance due upon maturity. The Company may make additional principal payments at any time, which will reduce the next quarterly installment payment due. Borrowings under the revolving credit facility may be repaid at any time through March 2027. The Company made principal payments of €2.3 million (\$2.4 million) towards its term loan and \$10.4 million towards its revolving credit facility during the six months ended July 1, 2022.

On March 27, 2020, the Company entered into an amendment (the “First Amendment”) to the Third Amended and Restated Credit Agreement and exercised a portion of the uncommitted accordion option. The First Amendment increased the revolving credit facility commitment under the Third Amended and Restated Credit Agreement by \$145.0 million, from \$350.0 million to \$495.0 million, and reset the uncommitted accordion option to \$200.0 million for potential future expansion.

On October 5, 2021, the Company entered into an amendment (the “Fourth Amendment”) to the Third Amended and Restated Credit Agreement to exercise the accordion option. The Fourth Amendment increased the revolving credit facility commitment under the Third Amended and Restated Credit Agreement by \$200.0 million, from \$495.0 million to \$695.0 million, and reset the uncommitted accordion option to \$200.0 million for potential future expansion.

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On March 10, 2022, the Company entered into an amendment (the “Fifth Amendment”) to the Third Amended and Restated Credit Agreement to extend the maturity date from December 31, 2024 to March 10, 2027, update the pricing grid, replace LIBOR with SOFR as the reference rate for U.S. dollar borrowings, and increase the uncommitted accordion option from \$200 million to \$350 million. In connection with the Fifth Amendment, the Company capitalized \$2.5 million deferred financing costs and recorded a \$0.6 million loss from the write-off of a portion of the unamortized deferred financing costs.

The Company is required to satisfy certain financial and non-financial covenants under the Third Amended and Restated Credit Agreement. The Third Amended and Restated Credit Agreement also contains customary events of default. The Company was in compliance with these covenants as of July 1, 2022.

Liens

The Company’s obligations under the Senior Credit Facilities are secured, on a senior basis, by a lien on substantially all of the assets of Novanta Inc.

Fair Value of Debt

As of July 1, 2022 and December 31, 2021, the outstanding balance of the Company’s debt approximated its fair value based on current rates available to the Company for debt of similar maturities. The fair value of the Company’s debt is classified as Level 2 under the fair value hierarchy.

10. Leases

Most leases held by the Company expire between 2022 and 2036. In the U.K., where longer lease terms are more common, the Company has a land lease that extends through 2078. Certain leases include one or more options to renew, with renewal terms that can extend the lease term from one to 10 years, and options to terminate the leases within one year. The exercise of lease renewal or termination options is at the Company’s sole discretion; therefore, the majority of renewal options to extend the lease terms are not included in the Company’s right-of-use assets and operating lease liabilities as they are not reasonably certain of being exercised. The Company regularly evaluates the renewal options and includes the renewal periods in the lease term when they are reasonably certain of being exercised. The depreciable lives of the right-of-use assets and leasehold improvements are limited to the expected lease terms.

The following table summarizes the components of lease costs (in thousands):

	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Operating lease cost	\$ 2,648	\$ 1,964	\$ 5,392	\$ 3,795
Finance lease cost				
Amortization of right-of-use assets	150	151	301	302
Interest on lease liabilities	78	86	157	173
Variable lease cost	353	324	618	559
Total lease cost	<u>\$ 3,229</u>	<u>\$ 2,525</u>	<u>\$ 6,468</u>	<u>\$ 4,829</u>

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The following table provides additional details of balance sheet information related to the Company's leases (in thousands, except lease term and discount rate):

	<u>July 1, 2022</u>	<u>December 31, 2021</u>
Operating leases		
Operating lease right-of-use assets	\$ 45,575	\$ 48,338
Current portion of operating lease liabilities	\$ 7,561	\$ 7,334
Operating lease liabilities	42,580	45,700
Total operating lease liabilities	\$ 50,141	\$ 53,034
Finance leases		
Property, plant and equipment, gross	\$ 9,582	\$ 9,582
Accumulated depreciation	(5,369)	(5,068)
Finance lease assets included in property, plant and equipment, net	\$ 4,213	\$ 4,514
Accrued expenses and other current liabilities	\$ 634	\$ 599
Other liabilities	4,996	5,309
Total finance lease liabilities	\$ 5,630	\$ 5,908
Weighted-average remaining lease term (in years):		
Operating leases	8.5	9.0
Finance leases	7.0	7.5
Weighted-average discount rate:		
Operating leases	4.71%	4.72%
Finance leases	5.54%	5.54%

The following table provides additional details of cash flow information related to the Company's leases (in thousands):

	<u>Six Months Ended</u>	
	<u>July 1, 2022</u>	<u>July 2, 2021</u>
Cash paid for amounts included in lease liabilities:		
Operating cash flows from finance leases	\$ 157	\$ 173
Operating cash flows from operating leases	\$ 4,010	\$ 3,252
Financing cash flows from finance leases	\$ 296	\$ 9,024
Supplemental non-cash information:		
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 2,931	\$ 3,257

During the six months ended July 1, 2021, the Company paid \$8.7 million upon the exercise of an option to purchase a building under a finance lease agreement in Germany. The cash payment is presented as a cash outflow from financing activities in the consolidated statement of cash flows.

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Future minimum lease payments under operating and finance leases expiring subsequent to July 1, 2022, including operating leases associated with facilities that have been vacated as a result of the Company's restructuring actions, are summarized as follows (in thousands):

Year Ending December 31,	Operating Leases	Finance Leases
2022 (remainder of year)	\$ 4,814	\$ 471
2023	8,855	930
2024	8,162	954
2025	7,817	954
2026	6,691	979
Thereafter	26,316	2,509
Total minimum lease payments	62,655	6,797
Less: Interest	(12,514)	(1,167)
Present value of lease liabilities	\$ 50,141	\$ 5,630

11. Preferred and Common Shares and Share-Based Compensation

Preferred Shares

In May 2021, the Company's shareholders approved a special resolution to amend the Company's articles to authorize up to 7.0 million preferred shares for future issuance. The Company's Board of Directors is authorized to designate and issue one or more series of preferred shares, fix the rights, preferences and designation, as deemed necessary or advisable, relating to the preferred shares, provided that no shares of any series may be entitled to more than one vote per share. As of July 1, 2022, no preferred shares had been issued and outstanding.

Common Share Repurchases

In October 2018, the Company's Board of Directors approved a share repurchase plan (the "2018 Repurchase Plan"), authorizing the repurchase of \$25.0 million worth of the Company's common shares. During the six months ended July 1, 2022, the Company repurchased 80 thousand shares for an aggregate purchase price of \$9.5 million at an average price of \$118.97 per share under the 2018 Repurchase Plan. As of July 1, 2022, the Company had repurchased a cumulative total of 264 thousand shares under the 2018 Repurchase Plan for an aggregate purchase price of \$25.0 million at an average price of \$94.57 per share. As of July 1, 2022, the Company had completed the 2018 Repurchase Plan.

In February 2020, the Company's Board of Directors approved a new share repurchase plan (the "2020 Repurchase Plan"), authorizing the repurchase of an additional \$50.0 million worth of the Company's common shares. During the six months ended July 1, 2022, the Company repurchase 4 thousand shares for an aggregate purchase price of \$0.5 million at an average price of \$116.95 per share under the 2020 Repurchase Plan. As of July 1, 2022, the Company had \$49.5 million available for future share repurchases under the 2020 Repurchase Plan.

Share-Based Compensation Expense

The table below summarizes share-based compensation expense recorded in the consolidated statements of operations (in thousands):

	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Selling, general and administrative	\$ 4,056	\$ 3,834	\$ 9,257	\$ 8,763
Research and development and engineering	494	515	1,194	1,242
Cost of revenue	531	686	1,404	1,674
Restructuring, acquisition, and related costs	—	—	—	—
Total share-based compensation expense	\$ 5,081	\$ 5,035	\$ 11,855	\$ 11,679

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Share-based compensation expense reported in selling, general and administrative expenses included expenses related to restricted stock units and deferred stock units granted to the members of the Company's Board of Directors of \$1.1 million and \$1.1 million during the six months ended July 1, 2022 and July 2, 2021, respectively.

Restricted Stock Units and Deferred Stock Units

The Company's restricted stock units ("RSUs") have generally been issued with vesting periods ranging from zero to five years and vest based solely on service conditions. Accordingly, the Company recognizes compensation expense on a straight-line basis over the requisite service period. The Company reduces the compensation expense by an estimated forfeiture rate which is based on anticipated forfeitures and historical forfeiture experience.

Deferred stock units ("DSUs") are granted to the members of the Company's Board of Directors. Compensation expense associated with the DSUs is recognized in full on the date of grant, as the DSUs are fully vested and non-forfeitable upon grant. There were 88 thousand and 91 thousand DSUs outstanding as of July 1, 2022 and December 31, 2021, respectively. Outstanding DSUs are included in the calculation of weighted average basic shares outstanding for the respective periods.

The table below summarizes activities relating to RSUs and DSUs issued and outstanding under the Company's Amended and Restated 2010 Incentive Plan during the six months ended July 1, 2022:

	Shares (In thousands)	Weighted Average Grant Date Fair Value
Unvested at December 31, 2021	292	\$ 115.42
Granted	101	\$ 136.54
Vested	(130)	\$ 115.17
Forfeited	(10)	\$ 127.12
Unvested at July 1, 2022	253	\$ 123.71
Expected to vest as of July 1, 2022	231	

The total fair value of RSUs and DSUs that vested during the six months ended July 1, 2022 was \$17.4 million based on the market price of the underlying shares on the date of vesting.

Performance Stock Units

The Company typically grants two types of performance-based stock awards, EPS-PSUs and TSR-PSUs, to certain members of the executive management team on an annual basis. Both types of performance-based restricted stock units generally cliff vest on the first day following the end of the three-year performance period.

The number of common shares to be issued upon settlement following the vesting of EPS-PSUs is determined based on the Company's cumulative non-GAAP EPS over a three-year performance period against the performance targets established by the Company's Board of Directors at the time of grant and will be in the range of zero to 200% of the target number of shares. The Company recognizes compensation expense ratably over the performance period based on the number of shares that are deemed probable of vesting at the end of the three-year performance cycle. This probability assessment is performed quarterly and the cumulative effect of a change in the estimated compensation expense, if any, is recognized in the consolidated statement of operations in the period in which such determination is made.

The number of common shares to be issued upon settlement following the vesting of TSR-PSUs is determined based on the relative market performance of the Company's common shares compared to the Russell 2000 Index over a three-year performance period using a payout formula established by the Company's Board of Directors at the time of grant and will be in the range of zero to 200% of the target number of shares. The Company recognizes the related compensation expense based on the fair value of the TSR-PSUs, determined using the Monte Carlo valuation method as of the grant date, on a straight-line basis from the grant date to the end of the three-year performance period. Compensation expense will not be affected by the number of TSR-PSUs that will ultimately vest at the end of the three-year performance period.

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In January 2022, the Company granted ATI-PSUs to ATI employees. The number of common shares to be issued upon settlement following vesting is determined based on a performance matrix for a four-year performance period against certain performance targets and will be in the range of zero to 100% of the target number of shares. The Company recognizes compensation expense ratably over the performance period based on the number of shares that are deemed probable of vesting at the end of the four-year performance cycle. This probability assessment is performed quarterly and the cumulative effect of a change in the estimated compensation expense, if any, is recognized in the consolidated statements of operations in the period in which such determination is made.

The table below summarizes the activities relating to the performance-based awards issued and outstanding under the Company's Amended and Restated 2010 Incentive Plan during the six months ended July 1, 2022:

	Shares (In thousands)	Weighted Average Grant Date Fair Value
Unvested at December 31, 2021	162	\$ 122.26
Granted	102	\$ 158.55
Vested	(41)	\$ 108.58
Forfeited	(8)	\$ 153.47
Unvested at July 1, 2022	215	\$ 144.12
Expected to vest as of July 1, 2022	210	

The unvested PSUs are shown at target in the table above. As of July 1, 2022, the maximum number of common shares to be earned under these PSU grants was approximately 337 thousand shares.

The total fair value of PSUs that vested during the six months ended July 1, 2022 was \$7.2 million based on the market price of the underlying common shares on the date of vesting.

The fair value of the TSR-PSUs at the date of grant was estimated using the Monte Carlo valuation method with the following assumptions:

	Six Months Ended July 1, 2022
Grant-date stock price	\$ 135.86
Expected volatility	40.70%
Risk-free interest rate	1.69%
Expected annual dividend yield	—
Fair value	\$ 141.52

Stock Options

In February 2022, the Company granted 40 thousand stock options to certain members of the executive management team to purchase common shares of the Company at a strike price equal to the closing market price of the Company's common shares on the date of grant. The stock options vest ratably over a three-year period from the date of grant and expire on the seventh anniversary of the date of grant. The Company estimates the fair value of stock options using the Black-Scholes valuation model. The Company recognizes compensation expense related to the stock options on a straight-line basis over the vesting period in the consolidated statement of operations.

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The table below summarizes activities relating to stock options issued and outstanding under the Company's Amended and Restated 2010 Incentive Plan during the six months ended July 1, 2022:

	Shares (In thousands)	Weighted Average Exercise Price
Outstanding as of December 31, 2021	60	\$ 14.13
Granted	40	\$ 135.86
Exercised	—	\$ —
Forfeited or expired	—	\$ —
Outstanding as of July 1, 2022	100	\$ 62.77
Exercisable as of July 1, 2022	60	
Expected to vest as of July 1, 2022	40	

The aggregate Black-Scholes fair value of \$1.9 million for the stock options granted during the six months ended July 1, 2022 was estimated using the following assumptions as of the grant date:

	Six Months Ended July 1, 2022
Expected option term in year	4.5
Expected volatility	39.3%
Risk-free interest rate	1.83%
Expected annual dividend yield	—

The expected option term was calculated using the simplified method permitted under Codification of Staff Accounting Bulletins Topic 14, "Share-Based Payment". The expected volatility was determined based on the historical volatility of the Company's common shares over the expected option term. Risk-free interest rate was based upon treasury instrument whose term was half year longer than the expected option term. The expected annual dividend yield is zero as the Company does not have plans to issue dividends.

12. Income Taxes

The Company determines its estimated annual effective tax rate at the end of each interim period based on full-year forecasted pre-tax income and facts known at that time. The estimated annual effective tax rate is applied to the year-to-date pre-tax income at the end of each interim period with the cumulative effect of any changes in the estimated annual effective tax rate being recorded in the period in which the changes are determined. The tax effect of significant unusual items is reflected in the period in which they occur. Since the Company is incorporated in Canada, it is required to use Canada's statutory tax rate of 29.0% in the determination of the estimated annual effective tax rate.

The Company maintains a valuation allowance on balances of certain U.S. state net operating losses and certain non-U.S. tax attributes that the Company has determined are not more likely than not to be realized. A valuation allowance is required when, based upon an assessment of various factors, including recent operating loss history, anticipated future earnings, and prudent and reasonable tax planning strategies, it is more likely than not that some portion of the deferred tax assets will not be realized. In conjunction with the Company's ongoing review of its actual results and anticipated future earnings, the Company continuously reassesses the possibility of adding a new or additional valuation allowance or releasing the valuation allowance currently in place on its deferred tax assets.

The Company's effective tax rate of 15.8% for the three months ended July 1, 2022 differs from the Canadian statutory tax rate of 29.0% primarily due to the mix of income earned in jurisdictions with varying tax rates, estimated deductions for Foreign Derived Intangible Income, U.K. patent box deductions, and R&D tax credits, partially offset by disallowed compensation and uncertain tax position accruals.

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The Company's effective tax rate of 12.4% for the six months ended July 1, 2022 differs from the Canadian statutory tax rate of 29.0% primarily due to the mix of income earned in jurisdictions with varying tax rates, estimated deductions for Foreign Derived Intangible Income, U.K. patent box deductions, R&D tax credits, and windfall tax benefits upon vesting of certain share-based compensation awards during the period, partially offset by disallowed compensation and uncertain tax position accruals. For the six months ended July 1, 2022, the windfall tax benefits upon vesting of certain share-based compensation awards had a benefit of 1.4% on the Company's effective tax rate.

Beginning in January 2022, the Tax Cuts and Jobs Act of 2017 ("TCJA") requires research and development ("R&D") expenditures be capitalized and amortized for income tax purposes over five years for domestic research and fifteen years for foreign research, rather than being deducted as incurred. This has the effect of increasing the Company's cash taxes and deferred tax assets. Since January 2022, the Company has recognized deferred tax assets of \$6.3 million for the relevant R&D expenditures. This provision also has an indirect benefit of 3% on the Company's effective tax rate for the six months ended July 1, 2022, as the Company's estimated Foreign Derived Intangible Income deduction has increased as a result of increased US taxable income. The provision for income taxes for both the three months and the six months ended July 1, 2022 reflects the impact of the TCJA.

The Company's effective tax rate of 19.2% for the three months ended July 2, 2021 differs from the Canadian statutory tax rate of 29.0% primarily due to the mix of income earned in jurisdictions with varying tax rates, estimated deductions for Foreign Derived Intangible Income, U.K. patent box deductions, other tax credits, and a release of uncertain tax position reserves, partially offset by the revaluation of long term deferred tax balances resulting from the U.K. corporate tax rate change.

The Company's effective tax rate of 3.5% for the six months ended July 2, 2021 differs from the Canadian statutory tax rate of 29.0% primarily due to the mix of income earned in jurisdictions with varying tax rates, estimated deductions for Foreign Derived Intangible Income, U.K. patent box deductions, other tax credits, a release of uncertain tax position reserves, and windfall tax benefits upon vesting of certain share-based compensation awards, partially offset by the revaluation of long term deferred tax balances resulting from the U.K. corporate tax rate change during the period. For the six months ended July 2, 2021, the windfall tax benefits upon vesting of certain share-based compensation awards had a benefit of 14.7% on the Company's effective tax rate.

13. Restructuring, Acquisition, and Related Costs

The following table summarizes restructuring, acquisition, and related costs in the accompanying consolidated statements of operations (in thousands):

	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
2020 restructuring	\$ 610	\$ 1,165	\$ 1,232	\$ 2,503
2019 restructuring	—	—	—	208
Total restructuring charges	610	1,165	1,232	2,711
Acquisition and related charges	2,045	3,469	(207)	5,654
Total restructuring, acquisition, and related costs	\$ 2,655	\$ 4,634	\$ 1,025	\$ 8,365

2020 Restructuring

As a result of the Company's ongoing evaluations and efforts to reduce its operating costs, while improving efficiency and effectiveness, the Company initiated the 2020 restructuring program in the third quarter of 2020. This program is focused on reducing operating complexity in the Company, including reducing infrastructure costs and streamlining the Company's operating model to better serve its customers. In addition, the program is focused on cost reduction actions that improve gross margins for the overall company. During the three and six months ended July 1, 2022, the Company recorded \$0.6 million and \$1.2 million, respectively, in severance and other costs in connection with the 2020 restructuring program. As of July 1, 2022, the Company had incurred cumulative costs related to this restructuring plan totaling \$9.3 million. The Company anticipates substantially completing the 2020 restructuring program in the fourth quarter of 2022 and expects to incur additional restructuring charges of \$3.0 million to \$3.5 million related to the 2020 restructuring program.

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The following table summarizes restructuring costs associated with the 2020 restructuring program by reportable segment (in thousands):

	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Photonics	\$ 501	\$ 195	\$ 1,194	\$ 490
Vision	65	275	106	697
Precision Motion	44	695	(68)	1,316
Unallocated Corporate and Shared Services	—	—	—	—
Total	\$ 610	\$ 1,165	\$ 1,232	\$ 2,503

2019 Restructuring

During the fourth quarter of 2018, the Company implemented a restructuring plan intended to realign operations, reduce costs, achieve operational efficiencies and focus resources on growth initiatives (the “2019 restructuring plan”). The Company did not incur any costs related to the 2019 restructuring plan during the three and six months ended July 1, 2022. As of December 31, 2021, the Company incurred cumulative costs related to this restructuring plan totaling \$9.0 million. The 2019 restructuring program was completed in 2021.

Rollforward of Accrued Expenses Related to Restructuring

The following table summarizes the accrual activities, by component, related to the Company’s restructuring plans recorded in the accompanying consolidated balance sheets (in thousands):

	Total	Employee Related	Facility	Other
Balance at December 31, 2021	\$ 2,686	\$ 2,107	\$ 550	\$ 29
Restructuring charges	1,232	294	804	134
Cash payments	(1,819)	(959)	(743)	(117)
Non-cash charges and other adjustments	(155)	(74)	(79)	(2)
Balance at July 1, 2022	\$ 1,944	\$ 1,368	\$ 532	\$ 44

Acquisition and Related Charges

Acquisition costs in connection with business combinations, including finders’ fees, legal, valuation, and other professional or consulting fees, totaled \$0.2 million and \$0.3 million for the three and six months ended July 1, 2022, respectively, and \$1.6 million and \$1.8 million for the three months and six months ended July 2, 2021, respectively. The Company incurred zero costs for the three and six months ended July 1, 2022, and \$0.8 million and \$1.8 million in legal costs for the three and six months ended July 2, 2021 related to a dispute involving a company that was acquired in 2019. During the three and six months ended July 1, 2022, the Company recognized \$1.8 million and (\$0.5) million, respectively, of earn-out expenses related to prior-year acquisitions. During the three and six months ended July 2, 2021, the Company recognized \$0.9 million and \$1.9 million, respectively, of earn-out expenses related to prior-year acquisitions. The majority of acquisition and related costs for the three and six months ended July 1, 2022 were included in the Company’s Precision Motion, Photonics, and Unallocated Corporate and Shared Services reportable segments. The majority of acquisition and related costs for the three and six months ended July 2, 2021 were included in the Company’s Precision Motion, Vision, and Unallocated Corporate and Shared Services reportable segments.

14. Commitments and Contingencies

Purchase Commitments

There have been no material changes to the Company’s purchase commitments since December 31, 2021.

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Legal Contingencies

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. The Company reviews the status of each significant matter and assesses the potential financial exposure on a quarterly basis. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, the Company accrues a liability for the estimated loss. Significant judgment is required in both the determination of probability and the determination as to whether an exposure is reasonably estimable. Because of uncertainties related to these matters, accruals are based only on the best information available as of the date of the consolidated balance sheet. As additional information becomes available, the Company reassesses the potential liability related to any pending claims and litigations and may revise its estimates. When a material loss contingency is reasonably possible but not probable, the Company does not record a liability, but instead discloses the nature and the amount of the claim, and an estimate of the potential loss or a range of potential losses, if such an estimate can be reasonably made. Legal fees are expensed as incurred. The Company does not believe that the outcome of these claims will have a material adverse effect on its consolidated financial statements but there can be no assurance that any such claims, or any similar claims, would not have a material adverse effect on the consolidated financial statements.

Guarantees and Indemnifications

In the normal course of its operations, the Company executes agreements that provide for indemnification and guarantees to counterparties in transactions such as business dispositions, sale of assets, sale of products and operating leases. Additionally, the by-laws of the Company require it to indemnify certain current or former directors, officers, and employees of the Company against expenses incurred by them in connection with each proceeding in which they are involved as a result of serving or having served in certain capacities. Indemnification is not available with respect to a proceeding as to which it has been adjudicated that the person did not act in good faith in the reasonable belief that the action was in the best interests of the Company. Certain of the Company's officers and directors are also a party to indemnification agreements with the Company. These indemnification agreements provide, among other things, that the director or officer shall be indemnified to the fullest extent permitted by applicable law against all expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by such director or officer in connection with any proceeding by reason of their relationship with the Company. In addition, the indemnification agreements provide for the advancement of expenses incurred by such director or officer in connection with any proceeding covered by the indemnification agreement, subject to the conditions set forth therein and to the extent such advancement is not prohibited by law. The indemnification agreements also set out the procedures for determining entitlement to indemnification, the requirements relating to notice and defense of claims for which indemnification is sought, the procedures for enforcement of indemnification rights, the limitations on and exclusions from indemnification, and the minimum levels of directors and officers liability insurance to be maintained by the Company.

15. Segment Information

Reportable Segments

The Company's Chief Operating Decision Maker ("CODM") utilizes financial information to make decisions about allocating resources and assessing performance for the entire Company. The Company evaluates the performance of and allocates resources to its segments based on revenue, gross profit and operating profit. The Company's reportable segments have been identified based on commonality and adjacency of technologies, applications and customers amongst the Company's individual product lines. The Company determined that disclosing revenue by specific product was impracticable due to the highly customized and extensive portfolio of technologies offered to customers.

Based upon the information provided to the CODM, the Company has determined that it operates in three reportable segments: Photonics, Vision, and Precision Motion. The reportable segments and their principal activities are described below.

Photonics

The Photonics segment designs, manufactures and markets photonics-based solutions, including laser scanning, laser beam delivery, CO2 laser, solid state laser, ultrafast laser, and optical light engine products, to customers worldwide. The segment serves highly demanding photonics-based applications for advanced industrial processes, metrology, medical and life science imaging, DNA sequencing, and medical laser procedures, particularly ophthalmology applications. The vast majority of the segment's product

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offerings are sold to OEM customers. The segment sells these products both directly, utilizing a highly technical sales force, and indirectly, through resellers and distributors.

Vision

The Vision segment designs, manufactures and markets a range of medical grade technologies, including medical insufflators, pumps and related disposables; visualization solutions; wireless technologies, video recorder and video integration technologies for operating room integrations; optical data collection and machine vision technologies; radio frequency identification (“RFID”) technologies; thermal chart recorders; spectrometry technologies; and embedded touch screen solutions. The vast majority of the segment’s product offerings are sold to OEM customers. The segment sells these products both directly, utilizing a highly technical sales force, and indirectly, through resellers and distributors.

Precision Motion

The Precision Motion segment designs, manufactures and markets optical and inductive encoders, precision motors, servo drives and motion control solutions, integrated stepper motors, intelligent robotic end-of-arm technology solutions, air bearings, and air bearing spindles to customers worldwide. The vast majority of the segment’s product offerings are sold to OEM customers. The segment sells these products both directly, utilizing a highly technical sales force, and indirectly, through resellers and distributors.

Reportable Segment Financial Information

Revenue, gross profit, gross profit margin, operating income (loss), and depreciation and amortization expenses by reportable segment were as follows (in thousands, except percentage data):

	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Revenue				
Photonics	\$ 69,461	\$ 62,357	\$ 132,243	\$ 120,851
Vision	65,516	63,447	127,566	131,083
Precision Motion	80,379	41,719	159,763	78,173
Total	\$ 215,356	\$ 167,523	\$ 419,572	\$ 330,107
	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Gross Profit				
Photonics	\$ 31,182	\$ 29,593	\$ 59,569	\$ 57,702
Vision	26,535	24,443	51,765	51,369
Precision Motion	38,864	20,874	77,014	36,951
Unallocated Corporate and Shared Services	(1,336)	(2,504)	(2,827)	(4,876)
Total	\$ 95,245	\$ 72,406	\$ 185,521	\$ 141,146
	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Gross Profit Margin				
Photonics	44.9%	47.5%	45.0%	47.7%
Vision	40.5%	38.5%	40.6%	39.2%
Precision Motion	48.4%	50.0%	48.2%	47.3%
Total	44.2%	43.2%	44.2%	42.8%

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	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Operating Income (Loss)				
Photonics	\$ 13,996	\$ 14,196	\$ 27,431	\$ 26,591
Vision	7,024	3,206	12,066	6,572
Precision Motion	14,083	12,279	32,421	19,724
Unallocated Corporate and Shared Services	(11,812)	(13,689)	(24,344)	(25,796)
Total	\$ 23,291	\$ 15,992	\$ 47,574	\$ 27,091

	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Depreciation and Amortization Expenses				
Photonics	\$ 2,697	\$ 2,905	\$ 5,474	\$ 5,803
Vision	4,322	5,279	8,749	10,554
Precision Motion	6,678	1,618	13,415	3,225
Unallocated Corporate and Shared Services	114	73	217	142
Total	\$ 13,811	\$ 9,875	\$ 27,855	\$ 19,724

Revenue by Geography

The Company aggregates geographic revenue based on the customer locations where products are shipped to. Revenue by geography was as follows (in thousands):

	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
United States	\$ 86,649	\$ 59,497	\$ 169,355	\$ 118,727
Germany	33,123	23,773	64,901	46,135
Rest of Europe	37,918	35,600	71,260	71,175
China	29,871	23,506	56,670	46,057
Rest of Asia-Pacific	23,090	22,762	47,585	43,509
Other	4,705	2,385	9,801	4,504
Total	\$ 215,356	\$ 167,523	\$ 419,572	\$ 330,107

The majority of revenue from Photonics, Vision and Precision Motion segments is generated from sales to customers within the United States and Europe. Each segment also generates revenue across the other geographies, with no significant concentration of any segment's remaining revenue.

Revenue by End Market

The Company primarily operates in two end markets: the medical market and the advanced industrial market. Revenue by end market was approximately as follows:

	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Medical	47%	52%	47%	53%
Advanced Industrial	53%	48%	53%	47%
Total	100%	100%	100%	100%

The majority of revenue from the Photonics and Precision Motion segments is generated from sales to customers in the advanced industrial market. The majority of revenue from the Vision segment is generated from sales to customers in the medical market.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Consolidated Financial Statements and Notes included in Item 1 of this Quarterly Report on Form 10-Q. The MD&A contains certain forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In addition to historical financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. These forward-looking statements include, but are not limited to the anticipated impacts of the COVID-19 pandemic on our business, our financial results and our financial condition; our belief that the Purchasing Managers Index ("PMI") may provide an indication of the impact of general economic conditions on our sales into the advanced industrial end market; our strategy; anticipated financial performance; expected liquidity and capitalization; drivers of revenue growth and our growth expectations in various markets; management's plans and objectives for future operations, expenditures and product development, and investments in research and development; business prospects; potential of future product releases and expansion of our product and service offerings; anticipated revenue performance; industry trends; market conditions; our competitive positions; changes in economic and political conditions, including supply chain constraints; changes in accounting principles; changes in actual or assumed tax liabilities; expectations regarding tax exposures; anticipated reinvestment of future earnings and dividend policy; anticipated expenditures in regard to the Company's benefit plans; future acquisitions; integration and anticipated benefits from acquisitions and dispositions; anticipated economic benefits, costs and timelines of restructuring programs; ability to repay our indebtedness; our intentions regarding the use of cash; expectations regarding legal and regulatory environmental requirements and our compliance thereto; and other statements that are not historical facts. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various important factors, including, but not limited to, the following: economic and political conditions and the effects of these conditions on our customers' businesses, capital expenditures and level of business activities; risks associated with the COVID-19 pandemic and other events outside of our control; our dependence upon our ability to respond to fluctuations in product demand; our ability to continually innovate, introduce new products timely, and successfully commercialize our innovations; customer order timing and other similar factors beyond our control; disruptions or breaches in security of our and our third-party providers' information technology systems; our failure to comply with data privacy regulations; changes in interest rates, credit ratings or foreign currency exchange rates; risks associated with our operations in foreign countries; our increased use of outsourcing in foreign countries; risks associated with increased outsourcing of components manufacturing; our exposure to increased tariffs, trade restrictions or taxes on our products; negative effects on global economic conditions, financial markets and our business as a result of the United Kingdom's withdrawal from the European Union; violations of our intellectual property rights and our ability to protect our intellectual property against infringement by third parties; risk of losing our competitive advantage; our failure to successfully integrate recent and future acquisitions into our business; our ability to attract and retain key personnel; our restructuring and realignment activities and disruptions to our operations as a result of consolidation of our operations; product defects or problems integrating our products with other vendors' products; disruptions in the supply of certain key components or other goods from our suppliers; our failure to accurately forecast component and raw material requirements leading to excess inventories or delays in the delivery of our products; production difficulties and product delivery delays or disruptions; our exposure to medical device regulations, which may impede or hinder the approval or sale of our products and, in some cases, may ultimately result in an inability to obtain approval of certain products or may result in the recall or seizure of previously approved products; potential penalties for violating foreign and U.S. federal and state healthcare laws and regulations; impact of healthcare industry cost containment and healthcare reform measures; changes in governmental regulations affecting our business or products; our failure to implement new information technology systems and software successfully; our failure to realize the full value of our intangible assets; increasing scrutiny and changing expectations from investors, customers, and governments with respect to Environmental, Social and Governance policies and practices; our exposure to the credit risk of some of our customers and in weakened markets; our reliance on third party distribution channels; our reliance on original equipment manufacturer customers; being subject to U.S. federal income taxation even though we are a non-U.S. corporation; changes in tax laws and fluctuations in our effective tax rates; any need for additional capital to adequately respond to business challenges or opportunities and repay or refinance our existing indebtedness, which may not be available on acceptable terms or at all; our existing indebtedness limiting our ability to engage in certain activities; volatility in the market price for our common shares; and our failure to maintain appropriate internal controls in the future. Other important risk factors that could affect the outcome of the events set forth in these statements and that could affect the Company's operating results and financial condition are discussed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2021 under the heading "Risk Factors", as updated in our other filings with the Securities and Exchange Commission. In this Quarterly Report on Form 10-Q, the words "expects," "intends," "anticipates," "estimates," "believes," "future," "plans," "aims," "would," "could," "should," "potential," "continues," and similar words or expressions (as well as other words or expressions referencing future events, conditions or circumstances) identify forward-looking statements. Readers should not place undue reliance on any such forward-looking statements, which speak only as of the date they are made. Management and the Company disclaim any obligation to publicly update or revise any such forward-looking statements to reflect any changes in its expectations or in events, conditions, or circumstances on which any such statements may be based, or that may affect the likelihood that actual results will differ from those contained in the forward-looking statements, except as required under applicable law.

Accounting Period

The interim consolidated financial statements of Novanta Inc. and its subsidiaries (collectively referred to as the “Company”, “Novanta”, “we”, “us”, “our”) are prepared for each quarterly period ending on the Friday closest to the end of the calendar quarter, except for the fourth quarter which always ends on December 31.

Business Overview

We are a leading global supplier of core technology solutions that give medical and advanced industrial original equipment manufacturers (“OEMs”) a competitive advantage. We combine deep proprietary technology expertise and competencies in photonics, vision and precision motion with a proven ability to solve complex technical challenges. This enables us to engineer core components and sub-systems that deliver extreme precision and performance, tailored to our customers' demanding applications.

Reportable Segments

We operate in three reportable segments: Photonics, Vision, and Precision Motion. The reportable segments and their principal activities are summarized below.

Photonics

Our Photonics segment designs, manufactures and markets photonics-based solutions, including laser scanning, laser beam delivery, CO2 laser, solid state laser, ultrafast laser, and optical light engine products, to customers worldwide. The segment serves highly demanding photonics-based applications for advanced industrial processes, metrology, medical and life science imaging, DNA sequencing, and medical laser procedures, particularly ophthalmology applications. The vast majority of the segment's product offerings are sold to OEM customers. The segment sells these products both directly, utilizing a highly technical sales force, and indirectly, through resellers and distributors.

Vision

Our Vision segment designs, manufactures and markets a range of medical grade technologies, including medical insufflators, pumps and related disposables; visualization solutions; wireless technologies, video recorder and video integration technologies for operating room integrations; optical data collection and machine vision technologies; radio frequency identification (“RFID”) technologies; thermal chart recorders; spectrometry technologies; and embedded touch screen solutions. The vast majority of the segment's product offerings are sold to OEM customers. The segment sells these products both directly, utilizing a highly technical sales force, and indirectly, through resellers and distributors.

Precision Motion

Our Precision Motion segment designs, manufactures and markets optical and inductive encoders, precision motors, servo drives and motion control solutions, integrated stepper motors, intelligent robotic end-of-arm technology solutions, air bearings, and air bearing spindles to customers worldwide. The vast majority of the segment's product offerings are sold to OEM customers. The segment sells these products both directly, utilizing a highly technical sales force, and indirectly, through resellers and distributors.

End Markets

We primarily operate in two end markets: the medical market and the advanced industrial market.

Medical Market

For the six months ended July 1, 2022, the medical market accounted for approximately 47% of our revenue. Revenue from our products sold to the medical market is generally affected by hospital and other healthcare provider capital spending, growth rates of surgical procedures, changes in regulatory requirements and laws, aggregation of purchasing by healthcare networks, changes in technology requirements, timing of OEM customers' product development and new product launches, changes in customer or patient preferences, and general demographic trends.

Advanced Industrial Market

For the six months ended July 1, 2022, the advanced industrial market accounted for approximately 53% of our revenue. Revenue from our products sold to the advanced industrial market is affected by several factors, including changing technology requirements and preferences of our customers, productivity or quality investments in a manufacturing environment, financial conditions of our customers, changes in regulatory requirements and laws, and general economic conditions. We believe that the Purchasing Managers Index (PMI) on manufacturing activities specific to different regions around the world may provide an indication of the impact of general economic conditions on our sales into the advanced industrial market.

Strategy

Our strategy is to drive sustainable, profitable growth through short-term and long-term initiatives, including:

- disciplined focus on our diversified business model of providing components and sub-systems to long life-cycle OEM customer platforms in attractive medical and advanced industrial niche markets;
- improving our business mix to increase medical sales as a percentage of total revenue by:
 - introducing new products aimed at attractive medical applications, such as minimally invasive and robotic surgery, ophthalmology, patient monitoring, drug delivery, clinical laboratory testing and life science equipment;
 - deepening our key account management relationships with and driving cross selling of our product offerings to leading medical equipment manufacturers; and
 - pursuing complementary medical technology acquisitions;
- increasing our penetration of high growth advanced industrial applications, such as laser materials processing, intelligent end-of-arm robotic technology solutions, robotics, laser additive manufacturing, automation and metrology, by working closely with OEM customers to launch application specific products that closely match the requirements of each application;
- broadening our portfolio of enabling proprietary technologies and capabilities through increased investment in new product development, and investments in application development to further penetrate existing customers, while expanding the applicability of our solutions to new markets;
- broadening our product and service offerings through the acquisition of innovative and complementary technologies and solutions in medical and advanced industrial technology applications;
- expanding sales and marketing channels to reach new target customers;
- improving our existing operations to expand profit margins and improve customer satisfaction by implementing lean manufacturing principles, strategic sourcing across our major production sites; and optimizing and limiting the growth of our fixed cost base; and
- attracting, retaining, and developing world-class talented and motivated employees.

Significant Events and Updates

Amendment to Third Amended and Restated Credit Agreement

On March 10, 2022, we entered into an amendment (the “Fifth Amendment”) to the third amended and restated credit agreement, dated as of December 31, 2019 (as amended, the “Credit Agreement”). The Fifth Amendment amends the Credit Agreement to extend the maturity date thereof from December 31, 2024 to March 10, 2027, update the pricing grid, replace LIBOR with SOFR as the reference rate for U.S. dollar borrowings, and increase the uncommitted accordion option from \$200 million to \$350 million.

Impact of COVID-19 on Our Business

In response to the COVID-19 pandemic, we have taken proactive, aggressive actions to protect the health and safety of our employees. We established steering committees at both the corporate level and at each of our major facilities to provide leadership for and manage our COVID-19 risk mitigation actions and countermeasures. We established rigorous safety measures in all of our facilities and have adapted our COVID-19 safety measures as the pandemic and related government mandates evolved over the past

two years. We expect to continue some of these measures until we determine that the COVID-19 pandemic is adequately contained for purposes of our business. We may take further actions as government authorities require or recommend or as we determine to be in the best interest of our employees. In connection with our COVID-19 remediation actions, we have incurred additional costs to protect the health of our employees, including investments in technologies and monitoring equipment, weekly testing of unvaccinated employees for COVID-19 at certain locations and rearranging some of our facilities to accommodate social distancing and flexible post-pandemic work environment.

Infection rates and the corresponding public health restrictions vary across the countries in which we operate. Many governmental authorities have continued to implement numerous evolving measures to try to contain the virus, such as travel bans and restrictions, masking recommendations and mandates, vaccine recommendations and mandates, limitations on gatherings, mandatory quarantines, shelter-in-place orders, and business shutdowns. While COVID-19 restrictions have been relaxed in the U.S. and Europe, in response to outbreaks of infection in various locations within China, governmental authorities have implemented lockdown orders in some areas, significantly slowing economic and business activities. Our manufacturing and distribution operations in Suzhou, China have been impacted to a limited degree by these recent lockdowns. The extent to which government lockdowns in China or any other country will impact our business and our financial results will depend on future developments, which are highly uncertain and cannot be reasonably estimated at this time.

Through July 1, 2022, we have experienced disruptions to our supply chain as a result of the COVID-19 pandemic and global electronics and other raw material shortages. While we regularly monitor the manufacturing output of companies in our supply chain, disruptions to our suppliers and/or sub-suppliers caused by these events could further challenge our ability to obtain raw materials or components required to manufacture our products, adversely affecting our operations and customer relationships.

To mitigate the risk of any potential supply interruptions from the COVID-19 pandemic and the global electronics and other raw material shortages, we are identifying alternative suppliers and distributors, sourcing raw materials from different supplier and distributor locations, modifying our product designs where feasible to allow for alternative components to be used without compromising quality, performance or other requirements, in-sourcing production of parts where feasible, and taking other actions to ensure a sustainable supply of raw materials. Despite our mitigation actions, if certain suppliers cannot produce a key part or component for us, or if the receipt of certain materials is otherwise delayed, we may miss our scheduled shipment deadlines and our relationship with customers may be harmed.

Additionally, restrictions on or disruptions of transportation, such as reduced availability of air transports, port closures and backlogs, and increased border controls or closures, have resulted in higher costs and delays, both for obtaining raw materials from suppliers and for shipping finished products to customers.

The COVID-19 pandemic and the global electronics and other raw material shortages have caused inflationary pressures on the market prices for certain of our parts and primary raw materials as well as increases in the costs of labor, freight, packaging, energy and other consumables that are used in our manufacturing processes. We have generally been able to offset increases in these costs through various productivity and cost reduction initiatives, as well as adjusting our selling prices to pass through some of these higher costs to our customers; however, our ability to raise our selling prices depends on market conditions and competitive dynamics. Given the timing of our actions compared to the timing of these inflationary pressures, there may be periods during which we are unable to fully recover the increases in our costs.

Russia Ukraine Conflict

In February 2022, Russian forces invaded Ukraine. In response, the United States, the European Union, and several other countries imposed economic and trade sanctions and other restrictions (collectively, “global sanctions”) targeting Russia and Belarus. Russia then imposed retaliatory economic measures against the United States, the European Union, and several other countries.

Our sales to Russia are not material. We continue to assess the conflict and related global sanctions and take steps to attempt to mitigate the potential negative impact on our business. Any longer-term impact to our business is currently unknown due to the uncertainty around the duration of the conflict, any further global sanctions and their broader impact on the global economy and inflation.

Results of Operations for the Three and Six Months Ended July 1, 2022 Compared with the Three and Six Months Ended July 2, 2021

The following table sets forth our unaudited results of operations as a percentage of revenue for the periods indicated:

	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Revenue	100.0%	100.0%	100.0%	100.0%
Cost of revenue	55.8	56.8	55.8	57.2
Gross profit	44.2	43.2	44.2	42.8
Operating expenses:				
Research and development and engineering	10.0	10.1	10.1	10.8
Selling, general and administrative	18.8	18.6	19.0	19.1
Amortization of purchased intangible assets	3.3	2.1	3.5	2.2
Restructuring, acquisition, and related costs	1.2	2.8	0.2	2.5
Total operating expenses	33.4	33.7	32.9	34.6
Operating income	10.8	9.5	11.3	8.2
Interest income (expense), net	(1.3)	(0.8)	(1.4)	(0.8)
Foreign exchange transaction gains (losses), net	0.1	(0.0)	0.1	(0.1)
Other income (expense), net	0.0	(0.1)	(0.1)	(0.1)
Income before income taxes	9.6	8.6	9.9	7.2
Income tax provision (benefit)	1.5	1.7	1.2	0.3
Consolidated net income	8.1%	7.0%	8.7%	7.0%

Overview of Financial Results

Total revenue of \$215.4 million for the three months ended July 1, 2022 increased \$47.8 million, or 28.6%, from the prior year period primarily due to revenue from prior year acquisitions and increased demand in the advanced industrial and medical markets. The effect of our prior year acquisitions resulted in an increase in revenue of \$34.9 million, or 20.9%. In addition, foreign currency exchange rates adversely impacted our revenue by \$8.6 million, or 5.2%, for the three months ended July 1, 2022.

Total revenue of \$419.6 million for the six months ended July 1, 2022 increased \$89.5 million, or 27.1%, from the prior year period primarily due to revenue from prior year acquisitions and increased demand in the advanced industrial and medical markets. The effect of our prior year acquisitions resulted in an increase in revenue of \$67.8 million, or 20.5%. In addition, foreign currency exchange rates adversely impacted our revenue by \$11.9 million, or 3.6%, for the six months ended July 1, 2022.

Operating income of \$23.3 million for the three months ended July 1, 2022 increased \$7.3 million, or 45.6%, from the prior year period. This increase was attributable to an increase in gross profit of \$22.8 million primarily attributable to higher revenue, an increase in gross profit margin, and a decrease in restructuring, acquisition, and related charges of \$2.0 million, partially offset by an increase in research and development and engineering (“R&D”) expenses of \$4.6 million, an increase in selling, general and administrative (“SG&A”) expenses of \$9.3 million and an increase in amortization expense of \$3.6 million.

Operating income of \$47.6 million for the six months ended July 1, 2022 increased \$20.5 million, or 75.6%, from the prior year period. This increase was attributable to an increase in gross profit of \$44.4 million primarily attributable to higher revenue, an increase in gross profit margin, and a decrease in restructuring, acquisition, and related charges of \$7.3 million, partially offset by an increase in R&D expenses of \$6.9 million, an increase in SG&A expenses of \$17.0 million and an increase in amortization expense of \$7.4 million.

Basic earnings per common share (“Basic EPS”) of \$0.49 for the three months ended July 1, 2022 increased \$0.16 from the prior year period. Diluted earnings per common share (“Diluted EPS”) of \$0.49 for the three months ended July 1, 2022 increased \$0.16 from the prior year period. The increases were primarily attributable to an increase in operating income.

Basic EPS of \$1.02 for the six months ended July 1, 2022 increased \$0.37 from the prior year period. Diluted EPS of \$1.01 for the six months ended July 1, 2022 increased \$0.37 from the prior year period. The increases were primarily attributable to an increase in operating income, partially offset by an increase in income tax provision.

Revenue

The following table sets forth external revenue by reportable segment for the periods noted (dollars in thousands):

	Three Months Ended		Increase (Decrease)	Percentage Change
	July 1, 2022	July 2, 2021		
Photonics	\$ 69,461	\$ 62,357	\$ 7,104	11.4%
Vision	65,516	63,447	2,069	3.3%
Precision Motion	80,379	41,719	38,660	92.7%
Total	<u>\$ 215,356</u>	<u>\$ 167,523</u>	<u>\$ 47,833</u>	28.6%

	Six Months Ended		Increase (Decrease)	Percentage Change
	July 1, 2022	July 2, 2021		
Photonics	\$ 132,243	\$ 120,851	\$ 11,392	9.4%
Vision	127,566	131,083	(3,517)	(2.7)%
Precision Motion	159,763	78,173	81,590	104.4%
Total	<u>\$ 419,572</u>	<u>\$ 330,107</u>	<u>\$ 89,465</u>	27.1%

Photonics

Photonics segment revenue for the three months ended July 1, 2022 increased by \$7.1 million, or 11.4%, versus the prior year period, primarily due to increased demand in advanced industrial and medical markets.

Photonics segment revenue for the six months ended July 1, 2022 increased by \$11.4 million, or 9.4%, versus the prior year period, primarily due to increased demand in advanced industrial and medical markets.

Vision

Vision segment revenue for the three months ended July 1, 2022 increased by \$2.1 million, or 3.3%, versus the prior year period, primarily due to increases in sales from our minimally invasive surgery products.

Vision segment revenue for the six months ended July 1, 2022 decreased by \$3.5 million, or 2.7%, versus the prior year period, primarily due to raw material shortage and other supply chain disruptions.

Precision Motion

Precision Motion segment revenue for the three months ended July 1, 2022 increased by \$38.7 million, or 92.7%, versus the prior year period, primarily due to \$34.9 million of revenue contributions from 2021 acquisitions and increased demand in advanced industrial and medical markets.

Precision Motion segment revenue for the six months ended July 1, 2022 increased by \$81.6 million, or 104.4%, versus the prior year period, primarily due to \$67.8 million of revenue contributions from 2021 acquisitions and increased demand in advanced industrial and medical markets.

Gross Profit and Gross Profit Margin

The following table sets forth the gross profit and gross profit margin for each of our reportable segments for the periods noted (dollars in thousands):

	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Gross profit:				
Photonics	\$ 31,182	\$ 29,593	\$ 59,569	\$ 57,702
Vision	26,535	24,443	51,765	51,369
Precision Motion	38,864	20,874	77,014	36,951
Unallocated Corporate and Shared Services	(1,336)	(2,504)	(2,827)	(4,876)
Total	<u>\$ 95,245</u>	<u>\$ 72,406</u>	<u>\$ 185,521</u>	<u>\$ 141,146</u>
Gross profit margin:				
Photonics	44.9%	47.5%	45.0%	47.7%
Vision	40.5%	38.5%	40.6%	39.2%
Precision Motion	48.4%	50.0%	48.2%	47.3%
Total	44.2%	43.2%	44.2%	42.8%

Gross profit and gross profit margin can be influenced by a number of factors, including product mix, pricing, volume, manufacturing efficiencies and utilization, costs for raw materials and outsourced manufacturing, trade tariffs, freight costs, headcount, inventory obsolescence and warranty expenses.

Photonics

Photonics segment gross profit for the three months ended July 1, 2022 increased \$1.6 million, or 5.4%, versus the prior year period, primarily due to an increase in revenue. Photonics segment gross profit margin was 44.9% for the three months ended July 1, 2022 versus a gross profit margin of 47.5% for the prior year period. The decrease in gross profit margin was primarily attributable to supply chain disruptions and overall raw material cost inflation.

Photonics segment gross profit for the six months ended July 1, 2022 increased \$1.9 million, or 3.2%, versus the prior year period, primarily due to an increase in revenue. Photonics segment gross profit margin was 45.0% for the six months ended July 1, 2022 versus a gross profit margin of 47.7% for the prior year period. The decrease in gross profit margin was primarily attributable to supply chain disruptions and overall raw material cost inflation.

Vision

Vision segment gross profit for the three months ended July 1, 2022 increased \$2.1 million, or 8.6%, versus the prior year period, primarily due to an increase in both revenue and gross profit margin. Vision segment gross profit margin was 40.5% for the three months ended July 1, 2022, versus a gross profit margin of 38.5% for the prior year period. The increase in gross profit margin was primarily attributable to improved factory efficiency.

Vision segment gross profit for the six months ended July 1, 2022 increased \$0.4 million, or 0.8%, versus the prior year period, primarily due to an increase in gross profit margin. Vision segment gross profit margin was 40.6% for the six months ended July 1, 2022, versus a gross profit margin of 39.2% for the prior year period. The increase in gross profit margin was primarily attributable to improved factory efficiency.

Precision Motion

Precision Motion segment gross profit for the three months ended July 1, 2022 increased \$18.0 million, or 86.2%, versus the prior year period, primarily due to an increase in revenue. Precision Motion segment gross profit margin was 48.4% for the three months ended July 1, 2022, versus a gross profit margin of 50.0% for the prior year period. The decrease in gross profit margin was primarily attributable to an increase in amortization of purchased intangible assets.

Precision Motion segment gross profit for the six months ended July 1, 2022 increased \$40.1 million, or 108.4%, versus the prior year period, primarily due to an increase in both revenue and gross profit margin. Precision Motion segment gross profit margin was 48.2% for the six months ended July 1, 2022, versus a gross profit margin of 47.3% for the prior year period. The increase in

gross profit margin was primarily attributable to improved factory efficiency and utilization, offset by an increase in amortization of purchased intangible assets.

Unallocated Corporate and Shared Services

Unallocated corporate and shared services costs primarily represent costs of corporate and shared services functions that are not allocated to the operating segments. These costs for the three months ended July 1, 2022 decreased by \$1.2 million versus the prior year period primarily due to reduced COVID-19 testing costs for employees of \$1.4 million.

Unallocated corporate and shared services costs for the six months ended July 1, 2022 decreased by \$2.1 million versus the prior year period primarily due to reduced COVID-19 testing costs for employees of \$2.7 million.

Operating Expenses

The following table sets forth operating expenses for the periods noted (in thousands):

	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Research and development and engineering	\$ 21,588	\$ 16,954	\$ 42,517	\$ 35,636
Selling, general and administrative	40,538	31,240	79,890	62,893
Amortization of purchased intangible assets	7,173	3,586	14,515	7,161
Restructuring, acquisition, and related costs	2,655	4,634	1,025	8,365
Total	<u>\$ 71,954</u>	<u>\$ 56,414</u>	<u>\$ 137,947</u>	<u>\$ 114,055</u>

Research and Development and Engineering Expenses

Research and Development and Engineering (“R&D”) expenses are primarily comprised of employee compensation related expenses and cost of materials for R&D projects. R&D expenses were \$21.6 million, or 10.0% of revenue, during the three months ended July 1, 2022, versus \$17.0 million, or 10.1% of revenue, during the prior year period. R&D expenses increased in terms of total dollars primarily due to expenses related to 2021 acquisitions.

R&D expenses were \$42.5 million, or 10.1% of revenue, during the six months ended July 1, 2022, versus \$35.6 million, or 10.8% of revenue, during the prior year period. R&D expenses increased in terms of total dollars primarily due to expenses related to 2021 acquisitions.

Selling, General and Administrative Expenses

Selling, general and administrative (“SG&A”) expenses include costs for sales and marketing, sales administration, finance, human resources, legal, information systems, and executive management functions. SG&A expenses were \$40.5 million, or 18.8% of revenue, during the three months ended July 1, 2022, versus \$31.2 million, or 18.6% of revenue, during the prior year period. SG&A expenses increased in terms of total dollars primarily due to SG&A expenses related to 2021 acquisitions and increases in variable compensation and discretionary spending.

SG&A expenses were \$79.9 million, or 19.0% of revenue, during the six months ended July 1, 2022, versus \$62.9 million, or 19.1% of revenue, during the prior year period. SG&A expenses increased in terms of total dollars primarily due to SG&A expenses related to 2021 acquisitions and increases in variable compensation and discretionary spending.

Amortization of Purchased Intangible Assets

Amortization of purchased intangible assets, excluding amortization of developed technologies that is included in cost of revenue, was \$7.2 million, or 3.3% of revenue, during the three months ended July 1, 2022, versus \$3.6 million, or 2.1% of revenue, during the prior year period. The increase, in terms of total dollars and as a percentage of revenue, was the result of more acquired intangible assets from 2021 acquisitions.

Amortization of purchased intangible assets, excluding amortization of developed technologies that is included in cost of revenue, was \$14.5 million, or 3.5% of revenue, during the six months ended July 1, 2022, versus \$7.2 million, or 2.2% of revenue, during the prior year period. The increase, in terms of total dollars and as a percentage of revenue, was the result of more acquired intangible assets from 2021 acquisitions.

Restructuring, Acquisition, and Related Costs

We recorded restructuring, acquisition, and related costs of \$2.7 million during the three months ended July 1, 2022, versus \$4.6 million during the prior year period. The acquisition and related costs decreased primarily due to a \$1.4 million reduction in acquisition and related expenses and a \$0.8 million reduction in legal fees, partially offset by a \$0.9 million increase in earnout expenses related to prior year acquisitions. The restructuring costs decreased \$0.6 million related to decreased expenses for the 2020 restructuring plan.

We recorded restructuring, acquisition, and related costs of \$1.0 million during the six months ended July 1, 2022, versus \$8.4 million during the prior year period. The acquisition and related costs decreased primarily due to a \$2.4 million reduction in earnout expenses related to prior year acquisitions, a \$1.8 million reduction in legal fees and a \$1.5 million reduction in other acquisition and related expenses. The restructuring costs decreased \$1.5 million related to decreased expenses for the 2020 restructuring plan.

Operating Income (Loss) by Segment

The following table sets forth operating income (loss) by segment for the periods noted (in thousands):

	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Operating Income (Loss)				
Photonics	\$ 13,996	\$ 14,196	\$ 27,431	\$ 26,591
Vision	7,024	3,206	12,066	6,572
Precision Motion	14,083	12,279	32,421	19,724
Unallocated Corporate and Shared Services	(11,812)	(13,689)	(24,344)	(25,796)
Total	<u>\$ 23,291</u>	<u>\$ 15,992</u>	<u>\$ 47,574</u>	<u>\$ 27,091</u>

Photonics

Photonics segment operating income was \$14.0 million, or 20.1% of revenue, during the three months ended July 1, 2022, versus \$14.2 million, or 22.8% of revenue, during the prior year period. The decrease in operating income was primarily due to an increase in R&D costs of \$1.1 million and an increase in S&GA expenses of \$0.4 million, partially offset by an increase in gross profit of \$1.6 million.

Photonics segment operating income was \$27.4 million, or 20.7% of revenue, during the six months ended July 1, 2022, versus \$26.6 million, or 22.0% of revenue, during the prior year period. The increase in operating income was primarily due to an increase in gross profit of \$1.9 million, and a decrease in restructuring, acquisition, and related charges of \$1.1 million, partially offset by an increase in R&D costs of \$1.0 million and an increase in S&GA expenses of \$0.9 million.

Vision

Vision segment operating income was \$7.0 million, or 10.7% of revenue, during the three months ended July 1, 2022, versus \$3.2 million, or 5.1% of revenue, during the prior year period. The increase in operating income was primarily due to an increase in gross profit of \$2.1 million and a decrease in restructuring, acquisition, and related charges of \$1.3 million.

Vision segment operating income was \$12.1 million, or 9.5% of revenue, during the six months ended July 1, 2022, versus \$6.6 million, or 5.0% of revenue, during the prior year period. The increase in operating income was primarily due to a decrease in restructuring, acquisition, and related charges of \$2.9 million, a decrease in R&D costs of \$1.4 million, a decrease in amortization expense of 0.8 million, and an increase in gross profit of \$0.4 million.

Precision Motion

Precision Motion segment operating income was \$14.1 million, or 17.5% of revenue, during the three months ended July 1, 2022, versus \$12.3 million, or 29.4% of revenue, during the prior year period. The increase in operating income was primarily due to an increase in gross profit of \$18.0 million, partially offset by increases in R&D spending of \$3.8 million, SG&A expenses of \$8.0 million, and amortization expense of \$4.0 million primarily as a result of prior year acquisitions.

Precision Motion segment operating income was \$32.4 million, or 20.3% of revenue, during the six months ended July 1, 2022, versus \$19.7 million, or 25.2% of revenue, during the prior year period. The increase in operating income was primarily due to an increase in gross profit of \$40.1 million, and a decrease in restructuring, acquisition, and related charges of \$1.6 million, partially offset by increases in R&D spending of \$7.3 million, SG&A expenses of \$13.7 million, and amortization expense of \$8.0 million primarily as a result of prior year acquisitions.

Unallocated Corporate and Shared Services

Unallocated corporate and shared services costs primarily represent costs of corporate and shared services functions that are not allocated to the operating segments, including certain restructuring and most acquisition costs. These costs for the three months ended July 1, 2022 decreased by \$1.9 million versus the prior year period primarily due to a decrease in costs related to COVID-19 testing for employees of \$1.4 million included in cost of revenue, and a decrease in restructuring, acquisition, and related charges of \$1.5 million, partially offset by an increase in SG&A expenses of \$0.8 million.

Unallocated corporate and shared services costs for the six months ended July 1, 2022 decreased by \$1.5 million versus the prior year period primarily due to a decrease in costs related to COVID-19 testing for employees of \$2.7 million included in cost of revenue, and a decrease in restructuring, acquisition, and related charges of \$1.7 million, partially offset by an increase in SG&A expenses of \$2.4 million.

Other Income and Expense Items

The following table sets forth other income and expense items for the periods noted (in thousands):

	Three Months Ended		Six Months Ended	
	July 1, 2022	July 2, 2021	July 1, 2022	July 2, 2021
Interest income (expense), net	\$ (2,757)	\$ (1,378)	\$ (5,866)	\$ (2,786)
Foreign exchange transaction gains (losses), net	\$ 152	\$ (76)	\$ 221	\$ (333)
Other income (expense), net	\$ 68	\$ (97)	\$ (477)	\$ (167)

Interest Income (Expense), Net

Net interest expense was \$2.8 million for the three months ended July 1, 2022, versus \$1.4 million in the prior year period. The increase in net interest expense was primarily due to an increase in average debt levels and an increase in the weighted average interest rate on our senior credit facilities. The weighted average interest rate on our senior credit facilities was 2.29% during the three months ended July 1, 2022, versus 2.04% during the prior year period.

Net interest expense was \$5.9 million for the six months ended July 1, 2022, versus \$2.8 million in the prior year period. The increase in net interest expense was primarily due to an increase in average debt levels and an increase in the weighted average interest rate on our senior credit facilities. The weighted average interest rate on our senior credit facilities was 2.39% during the six months ended July 1, 2022, versus 2.03% during the prior year period.

Foreign Exchange Transaction Gains (Losses), Net

Foreign exchange transaction gains (losses) were nominal for both the three and six months ended July 1, 2022 and the three and six months ended July 2, 2021.

Other Income (Expense), Net

Net other expense was nominal for the three months ended July 1, 2022 and July 2, 2021. The increase in other expense for the six months ended July 1, 2022 compared to the prior year comparable period was primarily due to a \$0.6 million loss from the write-off of a portion of the unamortized deferred financing cost as a result of the Fifth Amendment.

Income Tax Provision (Benefit)

Our effective tax rate for the three months ended July 1, 2022 was 15.8%, versus 19.2% for the prior year period. Our effective tax rate of 15.8% for the three months ended July 1, 2022 differs from the Canadian statutory tax rate of 29.0% primarily due to the mix of income earned in jurisdictions with varying tax rates, estimated deductions for Foreign Derived Intangible Income, U.K. patent box deductions, and R&D tax credits, partially offset by disallowed compensation and uncertain tax position accruals.

Our effective tax rate of 19.2% for the three months ended July 2, 2021, differs from the Canadian statutory tax rate of 29.0% primarily due to the mix of income earned in jurisdictions with varying tax rates, estimated deductions for Foreign Derived Intangible Income, U.K. patent box deductions, other tax credits, and a release of uncertain tax position reserves, offset by the revaluation of long term deferred tax balances resulting from the U.K. corporate tax rate change.

Our effective tax rate for the six months ended July 1, 2022 was 12.4%, versus 3.5% for the prior year period. Our effective tax rate of 12.4% for the six months ended July 1, 2022 differs from the Canadian statutory tax rate of 29.0% primarily due to the mix of income earned in jurisdictions with varying tax rates, estimated deductions for Foreign Derived Intangible Income, U.K. patent box deductions, R&D tax credits and windfall tax benefits upon vesting of certain share-based compensation awards, partially offset by disallowed compensation and uncertain tax position accruals. For the six months ended July 1, 2022, the windfall tax benefits upon vesting of certain stock-based compensation awards had a benefit of 1.4% on our effective tax rate.

Our effective tax rate of 3.5% for the six months ended July 2, 2021, differs from the Canadian statutory tax rate of 29.0% primarily due to the mix of income earned in jurisdictions with varying tax rates, estimated deductions for Foreign Derived Intangible Income, U.K. patent box deductions, other tax credits, a release of uncertain tax positions reserves, and windfall tax benefits upon vesting of certain share-based compensation awards, partially offset by the revaluation of long term deferred tax balances resulting from the U.K. corporate tax rate change during the period. For the six months ended July 2, 2021, the windfall tax benefits upon vesting of certain share-based compensation awards had a benefit of 14.7% on our effective tax rate.

Beginning in January 2022, the Tax Cuts and Jobs Act of 2017 (“TCJA”) requires R&D expenditures be capitalized and amortized for income tax purposes over five years for domestic research and fifteen years for foreign research, rather than being deducted as incurred. This has the effect of increasing our cash taxes and deferred tax assets. Since January 2022, the Company has recognized deferred tax assets of \$6.3 million for the relevant R&D expenditures. This provision also has an indirect benefit of 3% on our effective tax rate for the six months ended July 1, 2022, as our estimated deductions for Foreign Derived Intangible Income has increased as a result of increased U.S. taxable income. The provision for income taxes for both the three months and the six months ended July 1, 2022 reflects the impact of the TCJA.

Liquidity and Capital Resources

We assess our liquidity in terms of our ability to generate cash to fund our operating, investing, and financing activities. Our primary ongoing cash requirements are funding operations, capital expenditures, investments in businesses, and repayment of our debt and related interest payments. Our primary sources of liquidity are cash flows from operations and borrowings under our revolving credit facility. We believe our future operating cash flows will be sufficient to meet our future operating and capital expenditure cash needs for the foreseeable future, including at least the next 12 months. The availability of borrowing capacity under our revolving credit facility provides another potential source of liquidity for any future capital expenditures and other liquidity needs. In addition, we have the ability to expand our borrowing capacity by up to \$350.0 million by exercising the accordion option under our revolving credit agreement. We may also seek to raise additional capital, which could be in the form of bonds, convertible debt or preferred or common equity, to fund business development activities or other future investing cash requirements, subject to approval by the lenders in the Third Amended and Restated Credit Agreement (as amended, the “Credit Agreement”). There is no assurance that such capital will be available on reasonable terms or at all.

Significant factors affecting the management of our ongoing cash requirements are the adequacy of available bank lines of credit and our ability to attract long term capital with satisfactory terms. The sources of our liquidity are subject to all of the risks of our business and could be adversely affected by, among other factors, risks associated with events outside of our control, such as economic consequences of the COVID-19 pandemic, worsening supply chain disruptions and electronics and other material shortages, a decrease in demand for our products, our ability to integrate current and future acquisitions, deterioration in certain financial ratios, higher interest rates in the U.S. and Europe, availability of borrowings under our revolving credit facility, and market changes in general. See “Risks Relating to Our Common Shares and Our Capital Structure” included in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

Our cash requirements primarily consist of the principal and interest payments associated with our Senior Credit Facilities, operating and finance leases, purchase commitments, pension obligations, contingent considerations and earn-outs. Such contractual obligations are described in our Management's Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to Consolidated Financial Statements, each included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021. Through July 1, 2022, we have not entered into any other material new or modified contractual obligations since December 31, 2021.

Our ability to make payments on our indebtedness and to fund our operations may be dependent upon the earnings and the distribution of funds from our subsidiaries. Local laws and regulations and/or the terms of our indebtedness restrict certain of our subsidiaries from paying dividends and transferring assets to us. There is no assurance that applicable laws and regulations and/or the terms of our indebtedness will permit our subsidiaries to provide us with sufficient dividends, distributions or loans when necessary.

As of July 1, 2022, \$72.5 million of our \$100.5 million cash and cash equivalents was held by subsidiaries outside of Canada and the U.S. Generally, our intent is to use cash held in these foreign subsidiaries to fund our local operations or acquisitions by those local subsidiaries and to pay down borrowings under our Senior Credit Facilities (as defined below). Approximately \$144.8 million of our outstanding term loan and revolver borrowings under our Senior Credit Facilities were held in our subsidiaries outside of Canada and the U.S. Additionally, we may use intercompany loans to address short-term cash flow needs for various subsidiaries.

We deferred certain U.S. payroll tax payments in 2020 in accordance with relief provisions under the CARES Act. We paid \$1.4 million of such deferred payroll tax payments in December 2021. As permitted under the CARES Act, we expect to pay the remaining \$1.4 million deferred U.S. Payroll taxes by December 31, 2022.

Senior Credit Facilities

In December 2019, we entered into the Credit Agreement, consisting of a \$100.0 million U.S. dollar equivalent euro-denominated 5-year term loan facility (approximately €90.2 million) and a \$350.0 million 5-year revolving credit facility (collectively, the "Senior Credit Facilities"). The Senior Credit Facilities mature in December 2024 and included an uncommitted accordion option pursuant to which the commitments under the revolving credit facility may be increased by an additional \$200.0 million in aggregate, subject to certain customary conditions. The term loan facility requires quarterly scheduled principal repayments of approximately €1.1 million beginning in March 2020 with the remaining principal balance due upon maturity. We may make additional principal payments at any time, which will reduce the next quarterly installment payment due. We may pay down outstanding borrowings under our revolving credit facility with cash on hand and cash generated from future operations at any time.

In March 2020, we entered into an amendment (the "First Amendment") to the Third Amended and Restated Credit Agreement and exercised a portion of the uncommitted accordion option. The First Amendment increased the revolving credit facility commitment under the Third Amended and Restated Credit Agreement by \$145.0 million, from \$350.0 million to \$495.0 million, and reset the uncommitted accordion option to \$200.0 million for potential future expansion.

On October 5, 2021, the Company entered into an amendment (the "Fourth Amendment") to the Third Amended and Restated Credit Agreement to exercise the accordion option. The Fourth Amendment increased the revolving credit facility commitment under the Third Amended and Restated Credit Agreement by \$200.0 million, from \$495.0 million to \$695.0 million, and reset the uncommitted accordion option to \$200.0 million for potential future expansion.

On March 10, 2022, the Company entered into an amendment (the "Fifth Amendment") to the Credit Agreement to extend the maturity date thereof from December 31, 2024 to March 10, 2027, update the pricing grid, replace LIBOR with SOFR as the reference rate for U.S. dollar borrowings, and increase the uncommitted accordion option from \$200 million to \$350 million.

As of July 1, 2022, we had \$82.2 million term loan and \$330.6 million revolver borrowings outstanding under our Senior Credit Facilities. The borrowings outstanding under the Senior Credit Facilities bear interest at rates based on (a) the Base Rate, as defined in the Credit Agreement, plus a margin ranging between 0.00% and 0.75% per annum, determined by reference to our consolidated leverage ratio, or (b) the Eurocurrency Rate, as defined in the Credit Agreement, plus a margin ranging between 0.75% and 1.75% per annum, determined by reference to our consolidated leverage ratio. In addition, we are obligated to pay a commitment fee on the unused portion of the revolving credit facility, ranging between 0.20% and 0.30% per annum, determined by reference to our consolidated leverage ratio. As of July 1, 2022, we had outstanding borrowings under the Credit Agreement denominated in Euro and U.S. Dollars of \$144.8 million and \$268.0 million, respectively.

The Credit Agreement contains various covenants that we believe are usual and customary for this type of agreement, including a maximum consolidated leverage ratio and a minimum consolidated fixed charge coverage ratio (as defined in the Credit Agreement). The following table summarizes these financial covenants and our compliance therewith as of July 1, 2022:

	Requirement	Actual
Maximum consolidated leverage ratio (1)	3.50	2.23
Minimum consolidated fixed charge coverage ratio	1.50	9.83

- (1) *Maximum consolidated leverage ratio shall be increased to 4.00 for four consecutive quarters following a designated acquisition, as defined in the Fifth Amendment.*

Share Repurchase Plans

Our Board of Directors may approve share repurchase plans from time to time. Under these repurchase plans, shares may be repurchased at our discretion based on ongoing assessment of the capital needs of the business, the market price of our common shares, and general market conditions. Shares may also be repurchased through an accelerated share purchase agreement, on the open market or in privately negotiated transactions in accordance with applicable federal securities laws. Repurchases may be made under certain SEC regulations, which would permit common shares to be repurchased when we would otherwise be prohibited from doing so under insider trading laws. While the share repurchase plans are generally intended to offset dilution from equity awards granted to our employees and directors, the plans do not obligate us to acquire any particular amount of common shares. No time limit is typically set for the completion of the share repurchase plans, and the plans may be suspended or discontinued at any time. We expect to fund share repurchases through cash on hand and cash generated from operations.

In October 2018, our Board of Directors approved a share repurchase plan (the “2018 Repurchase Plan”) authorizing the repurchase of \$25.0 million worth of common shares. Share repurchases have been made under the 2018 Repurchase Plan pursuant to Rule 10b-18 under the Securities Exchange Act of 1934. During the six months ended July 1, 2022, we repurchased 80 thousand shares for an aggregate purchase price of \$9.5 million at an average price of \$118.97 per share under the 2018 Repurchase Plan. As of July 1, 2022, we had repurchased a cumulative total of 264 thousand shares under the 2018 Repurchase Plan for an aggregate purchase price of \$25.0 million at an average price of \$94.57 per share. As of July 1, 2022, we had completed the 2018 Repurchase Plan.

In February 2020, our Board of Directors approved a new share repurchase plan (the “2020 Repurchase Plan”) authorizing the repurchase of an additional \$50.0 million worth of common shares. Share repurchases have been made under the 2020 Repurchase Plan pursuant to Rule 10b-18 under the Securities Exchange Act of 1934. During the six months ended July 1, 2022, we repurchased 4 thousand shares for an aggregate purchase price of \$0.5 million at an average price of \$116.95 per share under the 2020 Repurchase Plan. As of July 1, 2022, we had \$49.5 million available for share repurchases under the 2020 Repurchase Plan.

Cash Flows for the Six Months Ended July 1, 2022 and July 2, 2021

The following table summarizes our cash flows, cash and cash equivalents, and unused and available funds under our revolving credit facility for the periods indicated (in thousands):

	Six Months Ended	
	July 1, 2022	July 2, 2021
Net cash provided by operating activities	\$ 35,408	\$ 52,014
Net cash used in investing activities	\$ (12,616)	\$ (10,843)
Net cash used in financing activities	\$ (35,473)	\$ (31,994)
	July 1, 2022	December 31, 2021
Cash and cash equivalents	\$ 100,489	\$ 117,393
Unused and available funds under the revolving credit facility	\$ 364,441	\$ 348,421

Operating Cash Flows

Cash provided by operating activities was \$35.4 million for the six months ended July 1, 2022, versus \$52.0 million for the prior year period. Cash provided by operating activities for the six months ended July 1, 2022 decreased from the prior year period primarily due to a \$33.5 million increase in inventories driven by increased customer demand and higher critical raw material

purchases, and a bonus payout in 2022 of \$8.4 million compared to no bonus payout in 2021 as a result of the elimination of our 2020 annual bonus plan, partially offset by an increase in profit before tax from higher revenue.

Beginning in January 2022, the Tax Cuts and Jobs Act of 2017 (“TCJA”) requires R&D expenditures be capitalized and amortized for income tax purposes over five years for domestic research and fifteen years for foreign research, rather than being deducted as incurred. This has the effect of increasing our cash taxes and deferred tax assets. If this provision under the TCJA is not deferred, modified, or repealed with retroactive effect going back to January 1, 2022, our operating cash flows are expected to decrease by approximately \$10.2 million for the year ending December 31, 2022.

Investing Cash Flows

Cash used in investing activities was \$12.6 million for the six months ended July 1, 2022, primarily driven by capital expenditures of \$12.1 million and a contingent consideration payment of \$1.5 million related to our 2016 asset acquisition of video signal processing and management technologies.

Cash used in investing activities was \$10.8 million for the six months ended July 2, 2021, primarily driven by capital expenditures of \$8.6 million and a contingent consideration payment of \$2.2 million related to our 2016 asset acquisition of video signal processing and management technologies.

We expect to use an aggregate of approximately \$25 million to \$30 million in 2022 for capital expenditures related to investments in new property, plant and equipment for our existing businesses.

Financing Cash Flows

Cash used in financing activities was \$35.5 million for the six months ended July 1, 2022, primarily due to \$10 million of repurchase of common stock, \$9.5 million of payroll tax payments upon vesting of share-based compensation awards, \$12.8 million of term loan and revolving credit facility repayments, and \$2.5 million of debt issuance costs in connection with the Fifth Amendment.

Cash used in financing activities was \$32.0 million for the six months ended July 2, 2021, primarily due to \$18.4 million of payroll tax payments upon vesting of share-based compensation awards, an \$8.7 million payment for the purchase of a building under a finance lease agreement, \$2.7 million of term loan repayments, and \$1.8 million of contingent consideration payments related to acquisitions.

Critical Accounting Policies and Estimates

The critical accounting policies that we believe impact significant judgments and estimates used in the preparation of our consolidated financial statements presented in this periodic report on Form 10-Q are described in our Management’s Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to Consolidated Financial Statements, each included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021. There have been no material changes to our critical accounting policies and estimates through July 1, 2022 from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

Recent Accounting Pronouncements

See Note 1 to Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our primary market risk exposures are foreign currency exchange rate fluctuations and interest rate sensitivity. During the three months ended July 1, 2022, there have been no material changes to the information included under Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Securities and Exchange Act of 1934 (the “Exchange Act”), our management carried out an evaluation, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of July 1, 2022, the end of the period

covered by this report. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of July 1, 2022.

Changes in Internal Control over Financial Reporting

There has been no change to our internal control over financial reporting during the fiscal quarter ended July 1, 2022 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. The Company does not believe that the outcome of these claims will have a material adverse effect upon its financial condition or results of operations but there can be no assurance that any such claims, or any similar claims, would not have a material adverse effect upon its financial condition or results of operations.

Item 1A. Risk Factors

The Company's risk factors are described in Part I, Item 1A, "Risk Factors", of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021. There have been no material changes in our risk factors as included in our Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table sets forth certain information with respect to repurchases of the Company's common shares during the three months ended July 1, 2022.

Period	ISSUER PURCHASES OF EQUITY SECURITIES			
	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾⁽²⁾	Approximate Dollar Value That May Yet Be Purchased Under the Plans or Programs ⁽¹⁾
April 2 - April 29, 2022	—	\$ —	—	\$ 59,500,104
April 30 - June 3, 2022	62,181	\$ 118.77	62,181	\$ 52,114,867
June 4 - July 1, 2022	21,945	\$ 119.15	21,945	\$ 49,500,120
Total	84,126		84,126	

- (1) In October 2018, our Board of Directors approved the 2018 Repurchase Plan, authorizing the repurchase of \$25.0 million worth of common shares. During the six months ended July 1, 2022, we repurchased 80 thousand shares under the 2018 Repurchase plan for an aggregate purchase price of \$9.5 million and an average price of \$118.97 per share. As of July 1, 2022, we had repurchased a cumulative total of 264 thousand shares under the 2018 Repurchase Plan for an aggregate purchase price of \$25.0 million and an average price of \$94.57 per share. As of July 1, 2022, we had completed the 2018 Repurchase Plan.
- (2) In February 2020, our Board of Directors approved the 2020 Repurchase Plan, authorizing the repurchase of an additional \$50.0 million worth of common shares. During the six months ended July 1, 2022, we repurchased 4 thousand shares under the 2020 Repurchase Plan for an aggregate purchase price of \$0.5 million and an average price of \$116.95 per share. We had \$49.5 million available for share repurchases under the 2020 Repurchase Plan as of July 1, 2022.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed/ Furnished Herewith
		Form	File No.	Exhibit	Filing Date	
3.1	Certificate and Articles of Continuance of the Registrant, dated March 22, 1999	S-3	333-202597	3.1	03/09/2015	
3.2	By-Laws of the Registrant, as amended	10-K	001-35083	3.2	03/01/2021	
3.3	Articles of Reorganization of the Registrant, dated July 23, 2010	8-K	000-25705	3.1	07/23/2010	
3.4	Articles of Amendment of the Registrant, dated December 29, 2010	8-K	000-25705	3.1	12/29/2010	
3.5	Articles of Amendment of the Registrant, dated May 11, 2016	8-K	001-35083	10.1	05/12/2016	
3.6	Articles of Amendment of the Registrant, dated April 29, 2022	10-Q	001-35083	3.6	05/10/2022	
10.1	Employment Agreement, dated July 11, 2022, between Novanta Inc. and Michele Welsh					*
31.1	Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					*
31.2	Chief Financial Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					*
32.1	Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					**
32.2	Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					**
101.INS	Inline eXtensible Business Reporting Language (XBRL) Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.					
101.SCH	Inline XBRL Taxonomy Extension Schema Document					*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					*
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)					*

* Filed herewith

** Furnished herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Novanta Inc. (Registrant)

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Matthijs Glastra</u> Matthijs Glastra	Chair of the Board and Chief Executive Officer	August 9, 2022
<u>/s/ Robert J. Buckley</u> Robert J. Buckley	Chief Financial Officer	August 9, 2022

Employment Agreement

This Employment Agreement (the “Agreement”), entered into on July 11th, 2022, is made by and between Michele Welsh (the “Executive”) and Novanta Inc., a company organized under the laws of the Province of New Brunswick, Canada (“Novanta” and, together with any of its subsidiaries and Affiliates as may employ the Executive from time to time, and any successor(s) thereto, the “Company”).

RECITALS

A. The Company desires to assure itself of the services of the Executive by engaging the Executive to perform services under the terms hereof.

B. The Executive desires to provide services to the Company on the terms herein provided.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, including the respective covenants and agreements set forth below, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Certain Definitions

(a) “Affiliate” shall mean, with respect to any Person, any other Person directly or indirectly controlling, controlled by, or under common control with, such Person where “control” shall have the meaning given such term under Rule 405 of the Securities Act of 1933, as amended from time to time.

(b) “Agreement” shall have the meaning set forth in the preamble hereto.

(c) “Annual Base Salary” shall have the meaning set forth in Section 3(a).

(d) “Annual Bonus” shall have the meaning set forth in Section 3(b).

(e) “Annual Equity Award” shall have the meaning set forth in Section 3(c).

(f) “Board” shall mean the Board of Directors of Novanta.

(g) “Bonus Payment Date” shall have the meaning set forth in Section 3(b).

(h) The Company shall have “Cause” to terminate the Executive’s employment hereunder upon: (i) the Executive’s willful failure to substantially perform the duties set forth in this Agreement (other than any such failure resulting from the Executive’s Disability or any inability to engage in any substantial gainful activity that could reasonably be expected to result in Disability) which is not remedied within 30 days after receipt of written notice from the Company

specifying such failure; (ii) the Executive's willful failure to carry out, or comply with, in any material respect any lawful and reasonable directive of the Board not inconsistent with the terms of this Agreement, which is not remedied within 30 days after receipt of written notice from the Company specifying such failure; (iii) the Executive's commission at any time of any act or omission that results in, or may reasonably be expected to result in, a conviction, plea of no contest, plea of *nolo contendere*, or imposition of unadjudicated probation for any felony or crime involving moral turpitude; or (iv) the Executive's unlawful use (including being under the influence) or possession of illegal drugs on the Company's premises or while performing the Executive's duties and responsibilities under this Agreement.

(i) "Change in Control" shall mean and includes any of the following which occurs on or following the Effective Date:

(i) A transaction or series of transactions whereby any "person" or related "group" of "persons" (as such terms are used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (other than Novanta, any of its subsidiaries, an employee benefit plan maintained by Novanta or any of its subsidiaries, a "person" or "group" who as of the Effective Date beneficially owns 5% or more of the total combined voting power of Novanta's securities outstanding, or a "person" that, prior to such transaction, directly or indirectly controls, is controlled by, or is under common control with, Novanta) directly or indirectly acquires beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of securities of Novanta possessing either (A) more than 40% of the total combined voting power of Novanta's securities outstanding immediately after such acquisition and, in connection with, and within the twelve-month period immediately following, such acquisition, new directors who constitute at least 40% of the Board (x) are nominated or designated by the acquiring "person" or related "group" of acquiring "persons" and (y) are elected by the Board or Novanta's shareholders (disregarding, for purposes of this determination, any new directors whose election or nomination is consented to by the Executive) or (B) more than 50% of the total combined voting power of Novanta's securities outstanding immediately following such acquisition; or

(ii) During any twelve-month period beginning on or following the Effective Date, individuals who, at the beginning of such period, constitute the Board together with any new director(s) (other than a director designated by a person who shall have entered into an agreement with Novanta to effect a transaction described in Section 1(i)(i) or Section 1(i)(iii)) whose election by the Board or nomination for election by Novanta's stockholders was approved by a vote of at least a majority of the directors then still in office who either were directors at the beginning of the twelve-month period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or

(iii) The consummation by Novanta (whether directly involving Novanta or indirectly involving Novanta through one or more intermediaries) of (A) a merger, consolidation, reorganization, or business combination or (B) a sale or other disposition of all or substantially all of Novanta's assets in any single transaction or series of related transactions or (C) the acquisition of assets or stock of another entity, in each case other than a transaction which results in Novanta's voting securities outstanding immediately before the transaction continuing to represent (either by remaining outstanding or by being converted into voting securities of

Novanta or the person that, as a result of the transaction, controls, directly or indirectly, Novanta or owns, directly or indirectly, all or substantially all of Novanta's assets or otherwise succeeds to the business of Novanta (Novanta or such person, the "Successor Entity") directly or indirectly, at least a majority of the combined voting power of the Successor Entity's outstanding voting securities immediately after the transaction; or

(iv) Novanta's stockholders approve a liquidation or dissolution of Novanta.

(j) "COBRA" shall mean the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.

(k) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(l) "Committee" shall mean, except as otherwise specified in Section 3(c), the Compensation Committee of the Board, or if no such committee exists, the Board.

(m) "Company" shall, except as otherwise provided in Section 6(j), have the meaning set forth in the preamble hereto.

(n) "Date of Termination" shall mean (i) if the Executive's employment is terminated due to the Executive's death, the date of the Executive's death; (ii) if the Executive's employment is terminated due to the Executive's Disability, the date determined pursuant to Section 4(a)(ii); or (iii) if the Executive's employment is terminated pursuant to Section 4(a)(iii)-(vi) either the date indicated in the Notice of Termination or the date specified by the Company pursuant to Section 4(b), whichever is earlier.

(o) "Disability" shall mean the Executive's inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or that can be expected to last for (i) a continuous period of not less than ninety days or (ii) at least 180 total calendar days in any 12-month period, in each case as determined by a physician selected by the Company or its insurers and reasonably acceptable to Executive. The Company will inform the Executive of the selection of the physician so that the Executive may consent to such selection (and the Executive's consent shall not be unreasonably withheld). The Executive shall be deemed to have consented to the selection of the physician if the Executive does not provide the Company with written notice objecting to such selection within five business days of the Executive being informed of the physician's selection. If the Executive objects to such selection (and the Company determines in good faith that such objection is not unreasonable), then the Company shall select another physician pursuant to the process described in this Section 1(o).

(p) "Effective Date" shall have the meaning set forth in the preamble hereto.

(q) "Excise Tax" shall have the meaning set forth in Section 8(a).

(r) "Executive" shall have the meaning set forth in the preamble hereto.

(s) "Extension Term" shall have the meaning set forth in Section 2(b).

(t) The Executive shall have “Good Reason” to terminate the Executive’s employment hereunder within one (1) year after the occurrence of one or more of the following conditions without the Executive’s consent: (i) a material diminution in the nature or scope of the Executive’s responsibilities, duties or authority, or a material diminution in the Executive’s title; (ii) failure of the Company to make any material payment or provide any material benefit under this Agreement; (iii) the Company’s material breach of this Agreement; or (iv) a material change in the geographic location at which the Executive must perform the Executive’s material services hereunder (which shall in no event include a relocation of the Executive’s principal place of business less than 50 miles from the Bedford Massachusetts metropolitan area); provided, however, that notwithstanding the foregoing the Executive may not resign his/her employment for Good Reason unless: (A) the Executive provides the Company with at least 30 days prior written notice of his/her intent to resign for Good Reason (which notice is provided not later than the 90th day following the Executive’s knowledge of the occurrence of the event constituting Good Reason); and (B) the Company does not remedy the alleged violation(s) within such 30-day period.

(u) “Initial Term” shall have the meaning set forth in Section 2(b).

(v) “Notice of Termination” shall have the meaning set forth in Section 4(b).

(w) “Payment” shall have the meaning set forth in Section 8(a).

(x) “Person” shall mean any individual, natural person, corporation (including any non-profit corporation), general partnership, limited partnership, limited liability partnership, joint venture, estate, trust, company (including any company limited by shares, limited liability company or joint stock company), incorporated or unincorporated association, governmental authority, firm, society or other enterprise, organization or other entity of any nature.

(y) “Proprietary Information” shall have the meaning set forth in Section 6(d).

(z) “Release” shall have the meaning set forth in Section 5(b).

(aa) “Release Expiration Date” shall have the meaning set forth in Section 23(c).

(bb) “Restricted Period” shall mean the period from the Effective Date through the first anniversary of the Date of Termination.

(cc) “Safe Harbor Amount” shall have the meaning set forth in Section 8(a).

(dd) “Section 409A” shall mean Section 409A of the Code and the Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the Effective Date.

(ee) “Target Bonus” shall have the meaning set forth in Section 3(b).

(ff) “Tax Advisor” shall have the meaning set forth in Section 8(b).

(gg) “Term” shall have the meaning set forth in Section 2(b).

2. **Employment**

(a) **In General.** The Company shall employ the Executive and the Executive shall enter the employ of the Company, for the period set forth in Section 2(b), in the position set forth in Section 2(c), and upon the other terms and conditions herein provided.

(b) **Term of Employment.** The initial term of employment under this Agreement (the “**Initial Term**”) shall be for the period beginning on July 11, 2022 (the “**Effective Date**”) and ending on the first anniversary thereof, unless earlier terminated as provided in Section 4. The Initial Term shall automatically be extended for successive one year periods (each, an “**Extension Term**” and, collectively with the Initial Term, the “**Term**”), unless either party hereto gives notice of non-extension to the other no later than 90 days prior to the expiration of the then-applicable Term. During the Term, the Executive’s principal place of business shall be the Company’s offices in Bedford, Massachusetts.

(c) **Position and Duties.** During the Term, the Executive: (i) shall serve as the General Counsel & Corporate Secretary of the Company, with responsibilities, duties and authority customary for such position, subject to direction by the Company’s Chief Executive Officer; (ii) shall report directly to the Company’s Chief Executive Officer; (iii) shall devote substantially all the Executive’s working time and efforts to the business and affairs of the Company and its subsidiaries; and (iv) agrees to observe and comply with the Company’s rules and policies as adopted by the Company from time to time. The parties acknowledge and agree that the Executive’s duties, responsibilities and authority may include services for one or more subsidiaries or Affiliates of the Company. Notwithstanding anything herein to the contrary, the Executive may, with the consent of the Company’s Chief Executive Officer, serve as a director, trustee or officer or otherwise participate in not-for-profit educational, welfare, social, religious and civic organizations to the extent that such other activities, either individually or in the aggregate, do not inhibit or interfere with the performance of the Executive’s duties under this Agreement.

3. **Compensation and Related Matters**

(a) **Annual Base Salary.** During the Term, the Executive shall receive a base salary at a rate of \$350,000 per annum, which shall be paid in accordance with the customary payroll practices of the Company, subject to review and upward adjustment by the Board in its sole discretion (the “**Annual Base Salary**”).

(b) **Annual Bonuses.** With respect to each Company fiscal year that ends during the Term, commencing with fiscal year 2022, the Executive shall be eligible to receive an annual performance-based cash bonus (the “**Annual Bonus**”) which shall be payable based upon the attainment of individual and Company performance goals established by the Board in consultation with the Executive. The terms of the Annual Bonus with respect to each fiscal year shall provide that if the Company and/or Executive attains target performance levels for an applicable fiscal year, the Executive’s Annual Bonus shall be payable in an amount equal to 60% of Annual Base Salary (the “**Target Bonus**”), and may, at the discretion of the Board, provide for a higher amount if performance targets are exceeded. Each such Annual Bonus shall be payable on, or at such date as is determined by the Board within 90 days following the last day of the fiscal year with respect to which it relates. Except as provided in Section 5, notwithstanding any other provision of this

Section 3(b), no bonus shall be payable with respect to any fiscal year unless the Executive remains continuously employed with the Company during the period beginning on the Effective Date and ending on the date of payment of such bonus (for each Annual Bonus, the “Bonus Payment Date”). For the avoidance of doubt, the Annual Bonus for fiscal year 2022 shall not be pro-rated.

(c) Annual Equity Award. With respect to each Company fiscal year that ends during the Term, commencing in fiscal year 2023, the Executive shall be eligible to receive an annual equity compensation award with respect to an aggregate target number of shares of Novanta common stock equal to the quotient of (i) a dollar amount determined by the Committee or the Board in its discretion, divided by (ii) the closing price per share of Novanta common stock on the grant date (each such award, an “Annual Equity Award”). The form of each Annual Equity Award (i.e., options, restricted stock units, performance stock units or other equity-based compensation awards), and the terms and conditions of each Annual Equity Award shall be determined by the Committee or the Board in its discretion and shall be set forth in one or more written award agreements between Novanta and the Executive; provided that each Annual Equity Award shall be granted at the same time (generally, in February of the fiscal year in question) as, and, except as set forth in this Agreement, shall be subject to the same vesting schedule (including performance vesting) and other general terms and conditions as, annual equity awards made to other senior executives of the Company. Notwithstanding anything in this Agreement to the contrary, for fiscal year 2023, it will be recommended to the Committee or the Board, as applicable, that the Executive’s Annual Equity Award have a minimum dollar amount of \$640,000.

(d) Initial Equity Award.

(i) Subject to approval of the Committee or the Board, on or as soon as reasonably practicable following July 15, 2022, the Company shall grant to the Executive equity-based compensation awards with an aggregate value equal to \$1,250,000. Of such amount, \$610,000 will be granted in the form of a restricted stock unit award (the “RSU Award”) and the remaining \$640,000 shall be granted in the form of performance restricted stock unit award (the “PSU Award”) and, together with the RSU Award, the “Award”), in each case, subject to the Executive’s continued employment through the applicable grant date.

(ii) The number of shares of Company common stock subject to each Award will be determined by dividing the applicable Award grant value by the Fair Market Value (as defined in the Company’s incentive award plan under which the Award is granted) of the Company’s common stock on the Effective Date.

(iii) Subject to the Executive’s continued service with the Company through the applicable vesting date, the RSU Award shall vest with respect to one-third (1/3) of the shares underlying the RSU Award on each of the first three anniversaries of the grant date.

(iv) Subject to the Executive’s continued service with the Company through the third anniversary of the grant date, the PSU Award shall vest 75% based on the achievement of relative total shareholder return targets determined as of such date and 25% based on the achievement of cumulative earnings per share targets determined as of

such date, in each case with such targets established and achievement determined by the Committee or the Board in its sole discretion.

(v) The terms and conditions of each Award shall be set forth in one or more separate award agreement(s) in a form(s) prescribed by the Company, to be entered into by the Company and the Executive (the “Award Agreements”). Except as otherwise specifically provided in this Agreement, each Award shall be governed in all respects by the terms of and conditions of the Company’s incentive award plan under which the Award is granted and the applicable Award Agreement.

(e) Sign-On Bonus. In consideration for the Executive commencing employment with the Company, on the first regular payroll date following the Effective Date, the Company shall pay to the Executive a one-time cash bonus in an amount equal to \$30,000, less applicable withholdings and deductions (the “Signing Bonus”). Notwithstanding the foregoing, the Executive and the Company acknowledge and agree that the Signing Bonus will not be earned to any extent prior to the twelve (12)-month anniversary of the Effective Date and will only be earned on the twelve (12)-month anniversary of the Effective Date if the Executive remains actively employed by the Company through such anniversary. In the event that the Executive resigns his/her employment with the Company without Good Reason or is terminated by the Company for Cause on or prior to the twelve (12)-month anniversary of the Effective Date, then the Executive hereby agrees to repay the full Signing Bonus, which repayment shall occur no later than thirty (30) days after the date of the Executive’s termination of employment with the Company. The Executive hereby authorizes the Company to immediately offset against and reduce any amounts otherwise due to the Executive for any amounts in respect of the obligation to repay the Signing Bonus. For the avoidance of doubt, if the Executive is terminated without Cause or resigns for Good Reason, the Executive does not have to repay any of the Signing Bonus.

(f) Relocation. It is currently anticipated that the Executive shall relocate his/her primary residence to the Bedford, Massachusetts area on or prior to March 31, 2023 (the “Relocation Deadline”). The Company shall reimburse the Executive for reasonable and necessary documented relocation and moving expenses incurred in connection with the Executive’s relocation described in this Section 3(f), including but not limited to reasonable and documented expenses incidental to the sale of the Executive’s primary residence and the purchase of the Executive’s primary residence in the Bedford, Massachusetts area, up to a maximum amount of \$100,000 (the “Relocation Expenses”). Such reimbursement shall be dependent upon the Executive’s submission, within thirty (30) days after such expenses are incurred, of documentation reasonably acceptable to the Company that evidences such expenses. Reimbursement of the Relocation Expenses, if any, shall be made no later than sixty (60) days after the Company’s receipt of approved documentation. In the event that the Executive resigns his/her employment with the Company without Good Reason or is terminated by the Company for Cause (i) on or prior to the twelve (12)-month anniversary of the Effective Date, then the Executive hereby agrees to repay in full all reimbursed Relocation Expenses, or (ii) after the twelve (12)-month anniversary of the Effective Date, but on or prior to the twenty-four (24)-month anniversary of the Effective Date, then the Executive hereby agrees to repay 50% of all reimbursed Relocation Expenses, in each case with repayment to occur no later than thirty (30) days after the date of the Executive’s termination of employment with the Company. The Executive hereby authorizes the Company to immediately offset against and reduce any amounts otherwise due to the Executive for any

amounts in respect of the obligation to repay reimbursed Relocation Expenses. For the avoidance of doubt, if the Executive is terminated without Cause or resigns for Good Reason, the Executive does not have to repay any of the reimbursed Relocation Expenses.

(g) Benefits. During the Term, the Executive shall be eligible to participate in employee benefit plans, programs and arrangements of the Company in accordance with their terms, as in effect from time to time, and as are generally provided by the Company to its senior executive officers.

(h) Vacation; Holidays. During the Term, the Executive shall be entitled to paid time off in accordance with the Company's policies, as in effect from time to time, including, as of the Effective Date, the Company's Flexible Time-Off policy, pursuant to which the Company expects the Executive to take a minimum of three (3) weeks of Flexible Time-Off each full calendar year. Any vacation shall be taken at the reasonable and mutual convenience of the Company and the Executive. Holidays shall be provided in accordance with Company policy, as in effect from time to time. The Company reserves the right to terminate or amend its paid time off policies from time to time in its discretion.

(i) Business Expenses. During the Term, the Company shall reimburse the Executive for all reasonable, documented, out-of-pocket travel and other business expenses incurred by the Executive in the performance of the Executive's duties to the Company in accordance with the Company's applicable expense reimbursement policies and procedures.

4. Termination

. During the Term, the Executive's employment hereunder may be terminated by the Company or the Executive, as applicable, without any breach of this Agreement only under the following circumstances:

(a) Circumstances.

(i) Death. The Executive's employment hereunder shall terminate upon the Executive's death.

(ii) Disability. If the Executive incurs a Disability, the Company may give the Executive written notice of its intention to terminate the Executive's employment. In that event, the Executive's employment with the Company shall terminate, effective on the later of the thirtieth (30th) day after receipt of such notice by the Executive or the date specified in such notice; provided that, within the thirty (30) day period following receipt of such notice, the Executive shall not have returned to full-time performance of the Executive's duties hereunder.

(iii) Termination for Cause. The Company may terminate the Executive's employment for Cause.

(iv) Termination without Cause. The Company may terminate the Executive's employment without Cause.

(v) Resignation for Good Reason. The Executive may resign from the Executive's employment for Good Reason.

(vi) Resignation without Good Reason. The Executive may resign from the Executive's employment without Good Reason.

(b) Notice of Termination. Any termination of the Executive's employment by the Company or by the Executive under this Section 4 (other than a termination pursuant to Section 4(a)(i) above) shall be communicated by a written notice to the other party hereto (a "Notice of Termination"): (i) indicating the specific termination provision in this Agreement relied upon, (ii) except with respect to a termination pursuant to Sections 4(a)(iv) or (vi), setting forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated, and (iii) specifying a Date of Termination which, if submitted by the Executive, shall be at least thirty (30) days following the date of such notice; provided, however, that a Notice of Termination delivered by the Company pursuant to Section 4(a)(ii) shall not be required to specify a Date of Termination, in which case the Date of Termination shall be determined pursuant to Section 4(a)(ii); and provided, further, that in the event that the Executive delivers a Notice of Termination to the Company, the Company may, in its sole discretion, accelerate the Date of Termination to any date that occurs following the date of Company's receipt of such Notice of Termination (even if such date is prior to the date specified in such Notice of Termination). A Notice of Termination submitted by the Company (other than a Notice of Termination under Section 4(a)(ii) above) may provide for a Date of Termination on the date the Executive receives the Notice of Termination, or any date thereafter elected by the Company in its sole discretion. The failure by the Company or the Executive to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Cause or Good Reason shall not waive any right of the Company or the Executive hereunder or preclude the Company or the Executive from asserting such fact or circumstance in enforcing the Company's or the Executive's rights hereunder. Notwithstanding the foregoing, a termination pursuant to Section 4(a)(iii) shall be deemed to occur if following Executive's termination of employment for any reason the Company determines that circumstances existing prior to such termination would have entitled to the Company to terminate Executive's employment pursuant to Section 4(a)(iii).

5. Company Obligations Upon Termination of Employment

(a) In General. Upon a termination of the Executive's employment for any reason, (i) the Executive (or the Executive's estate) shall be entitled to receive: (A) any portion of the Executive's Annual Base Salary through the Date of Termination not theretofore paid, (B) any expenses owed to the Executive under Section 3(i), (C) any accrued but unused vacation pay owed to the Executive pursuant to Section 3(h), and (D) any amount arising from the Executive's participation in, or benefits under, any employee benefit plans, programs or arrangements under Section 3(g), which amounts shall be payable in accordance with the terms and conditions of such employee benefit plans, programs or arrangements, and (ii) unless otherwise determined by the Board, the Executive shall, effective as of the Date of Termination, resign from all positions held at the Company or any of its subsidiaries (including, without limitation, any positions as an officer or director). Except as otherwise set forth in Section 5(b) or (c) below, the payments and benefits described in this Section 5(a) shall be the only payments and benefits payable in the event of the Executive's termination of employment for any reason.

(b) Termination without Cause or for Good Reason. In the event of the Executive's termination of employment by the Company without Cause pursuant to Section

4(a)(iv) or by the Executive for Good Reason pursuant to Section 4(a)(v), in addition to the payments and benefits described in Section 5(a) above, the Company shall, subject to Section 23 and Section 5(d) and subject to Executive's execution and non-revocation of a waiver and release of claims agreement in substantially in the form attached hereto as Exhibit A in accordance with Section 23(c) (a "Release"):

(i) Pay to the Executive an amount equal to 150% of the sum of (A) Annual Base Salary and (B) Target Bonus, in substantially equal installments during the period beginning on the Date of Termination and ending on the eighteen (18)-month anniversary of the Date of Termination in accordance with the Company's regular payroll practice as of the Date of Termination; provided that, notwithstanding anything to the contrary in this Section 5(b)(i), if such termination of employment occurs within the twelve (12)-month period immediately following a Change in Control (and such Change in Control constitutes a "change in control event" as defined in Treasury Regulations Section 1.409A-3(i)(5)), then, in lieu of the foregoing payments set forth in this Section 5(b)(i), the Company shall pay to the Executive an aggregate amount equal to 200% of the sum of (A) Annual Base Salary and (B) Target Bonus, in substantially equal installments during the period beginning on the Date of Termination and ending on the twenty-four (24)-month anniversary of the Date of Termination in accordance with the Company's regular payroll practice as of the Date of Termination;

(ii) Pay to the Executive an amount equal to the product of (A) the amount of the Annual Bonus that would have been payable to the Executive pursuant to Section 3(b) if the Executive was still employed as of the applicable Bonus Payment Date in respect of the fiscal year in which the Date of Termination occurs based on actual individual and Company performance goals in such year and (B) the ratio of (x) the number of days elapsed during the fiscal year during which such termination of employment occurs on or prior to the Date of Termination, to (y) 365. Any amount payable pursuant to this Section 5(b)(ii) shall, subject to Section 23 and Section 5(d), be paid to Executive in accordance with Section 3(b) as if the Executive was still employed on the applicable Bonus Payment Date, but in no event later than the 15th day of the third month of the fiscal year immediately following the fiscal year in which the Date of Termination occurs;

(iii) Continue to provide, subject to the Executive's valid election to continue healthcare coverage under COBRA, the Executive and the Executive's eligible dependents with coverage under its group health plans during the period commencing on the Date of Termination and ending on the earlier of (A) the eighteen (18)-month anniversary of the Date of Termination (if such termination of employment occurs within the twelve (12)-month period immediately following a Change in Control, the twenty-four (24)-month anniversary of the Date of Termination) and (B) the first date on which the Executive is eligible for group health plan coverage from another employer or otherwise at the same levels and the same cost to the Executive as would have applied if the Executive's employment had not been terminated based on the Executive's elections in effect on the Date of Termination, provided, however, that (A) if any plan pursuant to which such benefits are provided is not, or ceases prior to the expiration of the period of continuation coverage to be, exempt from the application of Section 409A under Treasury Regulation Section 1.409A-1(a)(5), or (B) the Company is otherwise unable to continue to cover the Executive under its group health plans without incurring penalties (including without limitation, pursuant to Section 2716 of the Public Health Service Act), then, in either case, an

amount equal to each remaining Company subsidy shall thereafter be paid to the Executive in substantially equal monthly installments over the continuation coverage period (or the remaining portion thereof); and

(iv) Notwithstanding any provision to the contrary in any equity plan or award agreement with respect to equity awards, cause (A) with respect to all Annual Equity Awards subject to service-based vesting, each such award to become vested with respect to a prorated portion thereof based on the ratio of the number of days of employment of the Executive during the applicable service-based vesting period to the total number of days of such service-based vesting period, and (B) with respect to all Annual Equity Awards subject to performance-based vesting, each such award to continue to be eligible to become vested in accordance with its terms based on actual performance with respect to a prorated portion of such award based on the ratio of the number of days of employment of the Executive during the applicable performance period to the total number of days of such performance period; provided that, notwithstanding anything to the contrary in this Section 5(b)(iv), (x) if such termination of employment occurs during any period when the Executive is unable to engage in substantial gainful activity that may reasonably be expected to result in Disability, the Company shall, on the Date of Termination, cause (I) all Annual Equity Awards subject to service-based vesting, to become fully vested and (II) all Annual Equity Awards subject to performance-based vesting to continue to be eligible to become vested in accordance with their terms based on actual performance, and (y) if such termination of employment occurs within the twelve (12)-month period immediately following a Change in Control, the Company shall, on the Date of Termination, cause all then-outstanding equity awards granted to the Executive (including, without limitation, any Annual Equity Awards) which are not vested as of the Date of Termination to become vested for the purposes of the 2010 Incentive Award Plan or any other applicable equity plan, and any applicable award agreement(s), deeming, for purposes of awards subject to performance-based vesting, that the Company will attain “target” performance levels (or such higher performance level as expressly contemplated by the applicable award agreement in the event of such a termination).

(c) Termination due to Death or Disability. In the event of the Executive’s termination of employment due to death pursuant to Section 4(a)(i) or by the Company due to Disability pursuant to Section 4(a)(ii), in addition to the payments and benefits described in Section 5(a) above, the Company shall, subject to Section 23 and Section 5(d) and subject (except in the case of death or a Disability so severe as to make such execution impossible) to the Executive’s execution and non-revocation of a Release in accordance with Section 23(c):

(i) Pay to the Executive an amount equal to the product of (A) the amount of the Annual Bonus that would have been payable to the Executive pursuant to Section 3(b) if the Executive was still employed as of the applicable Bonus Payment Date in respect of the fiscal year in which the Date of Termination occurs based on actual individual and Company performance goals in such year and (B) the ratio of (x) the number of days elapsed during the fiscal year during which such termination of employment occurs on or prior to the Date of Termination, to (y) 365. Any amount payable pursuant to this Section 5(c)(i) shall, subject to Section 23 and Section 5(d), be paid to the Executive in accordance with Section 3(b) as if the Executive was still employed on the applicable Bonus Payment Date in respect of the fiscal year in which the Date of Termination occurs, but in no event later than the 15th day of the third month of the fiscal year immediately following the fiscal year in which the Date of Termination occurs; and

(ii) Notwithstanding any provision to the contrary in any equity plan or award agreement with respect to equity awards, cause (A) with respect to all Annual Equity Awards subject to service-based vesting, each such award to become fully vested, and (B) with respect to all Annual Equity Awards subject to performance-based vesting, each such award to continue to be eligible to become vested in accordance with its terms based on actual performance.

(d) Notwithstanding any other provision of this Agreement, no payment shall be made, and no acceleration of vesting shall occur, pursuant to Section 5(b) or Section 5(c) following the date the Executive first violates Section 6(a), (b), (d), or (e) if the Executive does not cure such violation within 30 days of written notice thereof.

(e) The provisions of this Section 5 shall supersede in their entirety any severance payment provisions in any severance plan, policy, program or other arrangement maintained by the Company.

6. Restrictive Covenants

(a) The Executive hereby agrees that the Executive shall not, at any time during the Restricted Period, directly or indirectly engage in, have any interest in (including, without limitation, through the investment of capital or lending of money or property), or manage, operate or otherwise render any services to, any Person (whether on his/her own or in association with others, as a principal, director, officer, employee, agent, representative, partner, member, security holder, consultant, advisor, independent contractor, owner, investor, participant or in any other capacity) that engages in (either directly or through any subsidiary or Affiliate thereof) the business of marketing or selling any products which directly compete with the products sold by the Company but only if the Executive directly or indirectly engages in, has any interest in (including, without limitation, through the investment of capital or lending of money or property), or manages, operates or otherwise renders any services in connection with, such business (whether on his/her own or in association with others, as a principal, director, officer, employee, agent, representative, partner, member, security holder, consultant, advisor, independent contractor, owner, investor, participant or in any other capacity) (a "Competing Person"). Notwithstanding the foregoing, the Executive shall be permitted to acquire a passive stock or equity interest in such a Person; provided that such stock or other equity interest acquired is less than five percent (5%) of the outstanding interest in such Person.

(b) The Executive hereby agrees that the Executive shall not, at any time during the Restricted Period, directly or indirectly, either for himself or on behalf of any other Person, (i) recruit or otherwise solicit or induce any employee, customer or supplier of the Company to terminate its employment or arrangement with the Company, or otherwise change its relationship with the Company, or (ii) hire, or cause to be hired, any person who both (A) was employed by the Company at any time during the 180-day period before the Date of Termination and (B) was employed by the Company at the time of recruitment, solicitation, inducement or hire, or (x) with respect to any former employee of the Company who following his/her termination of employment at the Company becomes employed on a full-time basis with another employer prior to any recruitment, solicitation or inducement by the Executive (and who at the time of commencement of such other employment had no intention of becoming employed by the Executive or any Person affiliated with the Executive), at any time during the 90-day period immediately prior to

recruitment, solicitation, inducement or hire thereof, or (y) with respect to any other former employee of the Company, at any time during the 180-day period immediately prior to recruitment, solicitation, inducement or hire thereof; provided, however, that any advertising or solicitation not specifically directed at the Company or any of its employees, clients or customers shall not constitute a breach of this Section 6(b) nor shall the hiring of any person pursuant to such advertising or solicitation whose annual compensation is less than \$60,000 per annum.

(c) The provisions contained in Sections 6(a) and (b) may be altered and/or waived to be made less restrictive on the Executive with the prior written consent of the Board or the Committee. Additionally, the Executive and Company acknowledge that, to the extent the Executive is bound by Rule 5.6 of the Massachusetts Rules of Professional Conduct (or any similar provision), the restrictions of this Section 6 shall not be interpreted to restrict the Executive from engaging in the practice of law, provided such engagement does not also require or permit the Executive to serve in a business, non-legal role with a Competing Person. The Executive acknowledges and agrees that certain in-house legal roles, such as Chief Legal Officer, General Counsel and Assistant General Counsel roles, are roles that innately require service in both a legal and non-legal capacity, and, therefore, the Executive expressly agrees not to be engaged in such roles for a Competing Person during the Restricted Period.

(d) Except as the Executive reasonably and in good faith determines to be desirable in the faithful performance of the Executive's duties hereunder or required in accordance with Section 6(f), the Executive shall, during the Term and after the Date of Termination, maintain in confidence and shall not directly or indirectly, use, disseminate, disclose or publish, for the Executive's benefit or the benefit of any other Person, any confidential or proprietary information or trade secrets of or relating to the Company, including, without limitation, information with respect to the Company's operations, processes, protocols, products, inventions, business practices, finances, principals, vendors, suppliers, customers, potential customers, marketing methods, costs, prices, contractual relationships, regulatory status, compensation paid to employees or other terms of employment ("Proprietary Information"), or deliver to any Person, any document, record, notebook, computer program or similar repository of or containing any such Proprietary Information. The Executive's obligation to maintain and not use, disseminate, disclose or publish, or use for the Executive's benefit or the benefit of any other Person, any Proprietary Information after the Date of Termination will continue so long as such Proprietary Information is not, or has not by legitimate means become, generally known and in the public domain (other than by means of the Executive's direct or indirect disclosure of such Proprietary Information) and continues to be maintained as Proprietary Information by the Company. The parties hereby stipulate and agree that as between them, the Proprietary Information identified herein is important, material and affects the successful conduct of the businesses of the Company (and any successor or assignee of the Company).

(e) Upon termination of the Executive's employment with the Company for any reason, the Executive will promptly deliver to the Company (i) all correspondence, drawings, manuals, letters, notes, notebooks, reports, programs, plans, proposals, financial documents, and any other documents that are Proprietary Information, including all physical and digital copies thereof (the "Materials"), and (ii) all other Company property (including, without limitation, any personal computer or wireless device and related accessories, keys, credit cards and other similar items) which is in his/her possession, custody or control.

(f) The Executive may respond to a lawful and valid subpoena or other legal process but shall give the Company prompt notice thereof, and shall use reasonable best efforts, as much in advance of the return date as possible, to make available to the Company and its counsel the documents and other information sought, and shall assist (at the Company's expense) such counsel in resisting or otherwise responding to such process.

(g) Except as required in connection with any legal dispute between the parties or as required by applicable law or legal process, during the Term and thereafter; (i) Novanta shall instruct its then-current Board members, executive officers and authorized Novanta representatives speaking on behalf of Novanta to not willfully make (or direct anyone else to make) any Disparaging remarks, comments or statements about the Executive to any other person or entity; and (ii) the Executive shall not willfully make (or direct anyone else to make) any Disparaging remarks, comments or statements about the Company (including, without limitation, its directors, officers, agents, representatives, partners, members, equity holders or Affiliates) to any other person or entity. For purposes hereof, "Disparaging" written or oral remarks, comments or statements are those that impugn the character, honesty, integrity or morality or business acumen or abilities in connection with any aspect of the operation of business of the individual or entity being disparaged. Notwithstanding the foregoing, the Executive may make truthful statements about any Company employee to any member of the Board or his/her legal representatives and each Board member may make truthful statements about the Executive to other Board members or the Company's legal representatives.

(h) Prior to accepting other employment or any other service relationship during the Restricted Period, the Executive shall provide a copy of this Section 6 to any recruiter who assists the Executive in obtaining other employment or any other service relationship and to any employer or other Person with which the Executive obtains future employment or any other service relationship prior to the commencement of such future employment or other service relationship.

(i) In the event the terms of this Section 6 shall be determined by any court of competent jurisdiction to be unenforceable by reason of its extending for too great a period of time or over too great a geographical area or by reason of its being too extensive in any other respect, it will be interpreted to extend only over the maximum period of time for which it may be enforceable, over the maximum geographical area as to which it may be enforceable, or to the maximum extent in all other respects as to which it may be enforceable, all as determined by such court in such action. Any breach or violation by the Executive of the provisions of this Section 6 shall toll the running of any time periods set forth in this Section 6 for the duration of any such breach or violation.

(j) As used in this Section 6, the term "Company" shall include Novanta and any direct or indirect subsidiary entity thereof.

7. Injunctive Relief; Defend Trade Secrets Act.

(a) The Executive recognizes and acknowledges that a breach of the covenants contained in Section 6 will cause irreparable damage to the Company and its goodwill, the exact amount of which will be difficult or impossible to ascertain, and that the remedies at law for any

such breach will be inadequate. Accordingly, the Executive agrees that in the event of a breach of any of the covenants contained in Section 6, in addition to any other remedy which may be available at law or in equity, the Company will be entitled to specific performance and injunctive relief (without any requirement to post a bond or other security).

(b) The Executive acknowledges that the Company has provided the Executive with the following notice of immunity rights in compliance with the requirements of the Defend Trade Secrets Act of 2016: (i) the Executive shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of Proprietary Information that is made in confidence to a federal, state or local government official or to an attorney solely for the purpose of reporting or investigating a suspected violation of law, (ii) the Executive shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of Proprietary Information that is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal and (iii) if the Executive files a lawsuit for retaliation by the Company for reporting a suspected violation of law, the Executive may disclose the Proprietary Information to the Executive's attorney and use the Proprietary Information in the court proceeding, if the Executive files any document containing the Proprietary Information under seal, and does not disclose the Proprietary Information, except pursuant to court order.

8. Parachute Payments

(a) In the event it shall be determined that (i) any payment or distribution to or for the benefit of the Executive under this Agreement or any other plan, arrangement or agreement with the Company, any person whose actions result in a Change in Control or other change in control or any person affiliated with the Company or such person (the "Payment") and collectively, the "Payments") would be subject to the excise tax imposed by Section 4999 of the Code (or any similar federal, state or local tax that may hereafter be imposed) or any interest or penalties with respect to such excise tax (collectively, such excise tax, together with any such interest or penalties, the "Excise Tax") and (ii) the amount of all the Payments that Executive would retain after all federal, state and local income taxes, Executive's share of employment taxes, and the Excise Tax on the Payments would be less than the amount Executive would retain after all such taxes if the total amount of the Payments were reduced to an amount equal to one dollar less than the minimum amount which would result in the Payments becoming subject to the Excise Tax (such reduced amount, the "Safe Harbor Amount"), then the total amount of the Payments that shall be payable to Executive shall be reduced to an amount equal to the Safe Harbor Amount. The Payments shall be reduced by the Company in its reasonable discretion in the following order: (A) reduction of any cash severance payments otherwise payable to the Executive that are exempt from Section 409A, (B) reduction of any other cash payments or benefits otherwise payable to the Executive that are exempt from Section 409A, but excluding any payment attributable to the acceleration of vesting or payment with respect to any equity award that is exempt from Section 409A, (C) reduction of any other payments or benefits otherwise payable to the Executive on a pro-rata basis or such other manner that complies with Section 409A, but excluding any payment attributable to the acceleration of vesting and payment with respect to any equity award that is exempt from Section 409A, and (D) reduction of any payments attributable to the acceleration of vesting or payment with respect to any equity award that is exempt from Section 409A, in each case beginning with payments that would otherwise be made last in time.

(b) All determinations required to be made under this Section 8 shall be made in writing by an accounting firm or consulting group with experience in performing calculations regarding the applicability of Section 280G of the Code and the Excise Tax (the “Tax Advisor”) and such determinations shall be final and binding on the Company and the Executive and detailed supporting calculations shall be provided to the Company and the Executive. The Tax Advisor shall be selected by the Company in its good faith discretion, following consultation with its independent auditors and the Executive. Any fees incurred as a result of work performed by the Tax Advisor pursuant to this Section 8 shall be paid by the Company.

(c) For purposes of any analysis required by this Section 8, (i) the Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the determination is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of the Executive’s residence on the date of the determination is to be made, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes, (ii) no portion of the Payments shall be taken into account which, in the opinion of the Tax Advisor, does not constitute a “parachute payment” within the meaning of Section 280G(b)(2) of the Code (including, without limitation, by reason of Section 280G(b)(4)(A) of the Code), (iii) in calculating the Excise Tax, no portion of the Payments shall be taken into account which, in the opinion of the Tax Advisor, constitutes reasonable compensation for services actually rendered, within the meaning of Section 280G(b)(4)(B) of the Code, in excess of the “base amount” (as defined in Section 280G(b)(3) of the Code) allocable to such reasonable compensation, and (iv) the value of any non-cash benefit or any deferred payment or benefit included in the Payments shall be determined by the Tax Advisor in accordance with the principles of Sections 280G(d)(3) and (4) of the Code.

9. Assignment and Successors

. The Company may (a) assign its rights and obligations under this Agreement to any entity, including any successor to all or substantially all the assets of the Company, by merger or otherwise, and (b) may assign or encumber this Agreement and its rights hereunder as security for indebtedness of the Company and its Affiliates; provided, however, that no assignment or encumbrance pursuant to Section 9(b) shall relieve the Company of any of its obligations hereunder. The Executive may not assign the Executive’s rights or obligations under this Agreement to any individual or entity. This Agreement shall be binding upon and inure to the benefit of the Company, the Executive and their respective successors, assigns, personnel and legal representatives, executors, administrators, heirs, distributees, devisees, and legatees, as applicable.

10. Governing Law

. This Agreement shall be governed, construed, interpreted and enforced in accordance with the substantive laws of the Commonwealth of Massachusetts, without giving effect to any principles of conflicts of law, whether of the Commonwealth of Massachusetts or any other jurisdiction, and where applicable, the laws of the United States, that would result in the application of the laws of any other jurisdiction.

11. Validity

. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

12. Notices

. Any notice, request, claim, demand, document and other communication hereunder to any party hereto shall be effective upon receipt (or refusal of receipt) and shall be in writing and delivered personally or sent by telex, telecopy, or certified or registered mail, postage prepaid, to the following address (or at any other address as any party hereto shall have specified by notice in writing to the other party hereto):

(a) If to the Company:

Novanta Inc.
125 Middlesex Turnpike
Bedford, MA 01730-1409
Attn: Chief Human Resources Officer
Facsimile: (781) 266-5114

(b) If to the Executive, at the Executive's address set forth in the Company's then-current records.

13. Counterparts

. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same Agreement.

14. Entire Agreement

. The terms of this Agreement (together with any other agreements and instruments contemplated hereby or referred to herein) is intended by the parties hereto to be the final expression of their agreement with respect to the employment of the Executive by the Company and supersedes and may not be contradicted by evidence of any prior or contemporaneous agreement. The parties hereto further intend that this Agreement shall constitute the complete and exclusive statement of its terms and that no extrinsic evidence whatsoever may be introduced in any judicial, administrative, or other legal proceeding to vary the terms of this Agreement.

15. Amendments; Waivers

. This Agreement may not be modified, amended, or terminated except by an instrument in writing, signed by the Executive and a duly authorized officer of Novanta and approved by the Board, which expressly identifies the amended provision of this Agreement. By an instrument in writing similarly executed and approved by the Board, the Executive or a duly authorized officer of Novanta may waive compliance by the other party or parties hereto with any provision of this Agreement that such other party was or is obligated to comply with or perform; provided, however, that such waiver shall not operate as a waiver of, or estoppel with respect to, any other or subsequent failure to comply or perform. No failure to exercise and no delay in exercising any right, remedy, or power hereunder shall preclude any other or further exercise of any other right, remedy, or power provided herein or by law or in equity.

16. No Inconsistent Actions

. The parties hereto shall not voluntarily undertake or fail to undertake any action or course of action inconsistent with the provisions or essential intent of this Agreement. Furthermore, it is the intent of the parties hereto to act in a fair and reasonable manner with respect to the interpretation and application of the provisions of this Agreement.

17. Construction

. This Agreement shall be deemed drafted equally by both of the parties hereto. Its language shall be construed as a whole and according to its fair meaning. Any presumption or principle that the language is to be construed against any party hereto shall not apply. The headings in this Agreement are only for convenience and are not intended to affect construction or interpretation. Any references to paragraphs, subparagraphs, sections or subsections are to those parts of this Agreement, unless the context clearly indicates to the contrary. Also, unless the context clearly indicates to the contrary, (a) the plural includes the singular and the singular includes the plural; (b) “and” and “or” are each used both conjunctively and disjunctively; (c) “any,” “all,” “each,” or “every” means “any and all,” and “each and every”; (d) “includes” and “including” are each “without limitation”; (e) “herein,” “hereof,” “hereunder” and other similar compounds of the word “here” refer to the entire Agreement and not to any particular paragraph, subparagraph, section or subsection; and (f) all pronouns and any variations thereof shall be deemed to refer to the masculine, feminine, neuter, singular or plural as the identity of the entities or persons referred to may require.

18. Dispute Resolution

(a) With respect to disputes and claims hereunder, each of the parties irrevocably submits to the exclusive jurisdiction of any court of competent jurisdiction sitting in Middlesex County, Massachusetts, for the purposes of any suit, action or other proceeding arising out of this Agreement, any related agreement or any transaction contemplated hereby or thereby. Each of the parties hereto further agrees that service of any process, summons, notice or document by U.S. registered mail to such party’s respective address set forth or described in Section 12 shall be effective service of process for any action, suit or proceeding in any court of competent jurisdiction sitting in Middlesex County, Massachusetts with respect to any matters to which it has submitted to jurisdiction in this Section 18. Each of the parties hereto irrevocably and unconditionally waives any objection to the laying of venue of any action, suit or proceeding arising out of this Agreement, any related document or the transactions contemplated hereby and thereby in any court of competent jurisdiction sitting in Middlesex County, Massachusetts, and hereby and thereby further irrevocably and unconditionally waives and agrees not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum.

(b) As a specifically bargained for inducement for each of the parties hereto to enter into this Agreement (after having the opportunity to consult with counsel), each party hereto expressly waives the right to trial by jury in any lawsuit or proceeding relating to or arising in any way from this Agreement or the matters contemplated hereby.

19. Enforcement

. Subject to Section 6(i), if any provision of this Agreement is held to be illegal, invalid or unenforceable under present or future laws effective during the term of this Agreement, such provision shall be fully severable; this Agreement shall be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a portion of this Agreement; and the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance from this Agreement. Furthermore, without limiting Section 6(i), in lieu of such illegal, invalid or unenforceable provision there shall be added automatically as part of this Agreement a provision

as similar in terms to such illegal, invalid or unenforceable provision as may be possible and be legal, valid and enforceable.

20. Withholding

. The Company shall be entitled to withhold from any amounts payable under this Agreement, any federal, state, local or foreign withholding or other taxes or charges which the Company is required to withhold. The Company shall be entitled to rely on an opinion of counsel if any questions as to the amount or requirement of withholding shall arise.

21. Absence of Conflicts; Executive Acknowledgement; Confidentiality

. The Executive hereby represents that from and after the Effective Date the performance of the Executive's duties hereunder will not breach any other agreement to which the Executive is a party. The Executive acknowledges that the Executive has read and understands this Agreement, is fully aware of its legal effect, has not acted in reliance upon any representations or promises made by the Company other than those contained in writing herein, and has entered into this Agreement freely based on the Executive's own judgment.

22. Survival

. The expiration or termination of the Term shall not impair the rights or obligations of any party hereto which shall have accrued prior to such expiration or termination (including, without limitation, pursuant to the provisions of Section 6 hereof).

23. Section 409A

(a) General. The parties hereto acknowledge and agree that, to the extent applicable, this Agreement shall be interpreted in accordance with, and incorporate the terms and conditions required by, Section 409A. Notwithstanding any provision of this Agreement to the contrary, in the event that the Company determines that any amounts payable hereunder will be immediately taxable to the Executive under Section 409A, the Company reserves the right (without any obligation to do so or to indemnify the Executive for failure to do so) to (i) adopt such amendments to this Agreement and appropriate policies and procedures, including amendments and policies with retroactive effect, that the Company determines to be necessary or appropriate to preserve the intended tax treatment of the benefits provided by this Agreement, to preserve the economic benefits of this Agreement and to avoid less favorable accounting or tax consequences for the Company and/or (ii) take such other actions as the Company determines to be necessary or appropriate to exempt the amounts payable hereunder from Section 409A or to comply with the requirements of Section 409A and thereby avoid the application of penalty taxes thereunder. No provision of this Agreement shall be interpreted or construed to transfer any liability for failure to comply with the requirements of Section 409A from the Executive or any other individual to the Company or any of its Affiliates, employees or agents.

(b) Separation from Service under Section 409A. Notwithstanding any provision to the contrary in this Agreement: (i) no amount that constitutes "nonqualified deferred compensation" under Section 409A shall be payable pursuant to Section 5(b) or 5(c) unless the termination of the Executive's employment constitutes a "separation from service" within the meaning of Section 1.409A-1(h) of the Department of Treasury Regulations; (ii) for purposes of Section 409A, the Executive's right to receive installment payments pursuant to Section 5(b) or 5(c) shall be treated as a right to receive a series of separate and distinct payments; and (iii) to the extent that any reimbursement of expenses or in-kind benefits constitutes "deferred compensation"

under Section 409A, such reimbursement or benefit shall be provided no later than December 31 of the year following the year in which the expense was incurred. The amount of expenses reimbursed in one year shall not affect the amount eligible for reimbursement in any subsequent year. The amount of any in-kind benefits provided in one year shall not affect the amount of in-kind benefits provided in any other year. Notwithstanding any provision to the contrary in this Agreement, if the Executive is deemed at the time of his/her separation from service to be a "specified employee" for purposes of Section 409A(a)(2)(B)(i) of the Code, to the extent delayed commencement of any portion of the termination benefits to which the Executive is entitled under this Agreement is required in order to avoid a prohibited distribution under Section 409A(a)(2)(B)(i) of the Code, such portion of the Executive's termination benefits shall not be provided to the Executive prior to the earlier of (A) the expiration of the six-month period measured from the date of the Executive's "separation from service" with the Company (as such term is defined in the Treasury Regulations issued under Section 409A of the Code) or (B) the date of the Executive's death; upon the earlier of such dates, all payments deferred pursuant to this sentence shall be paid in a lump sum to the Executive, and any remaining payments due under the Agreement shall be paid as otherwise provided herein.

(c) Release. Notwithstanding anything to the contrary in this Agreement, to the extent that any payments of "nonqualified deferred compensation" (within the meaning of Section 409A) due under this Agreement as a result of the Executive's termination of employment are subject to the Executive's execution and delivery of a Release, (i) the Company shall deliver the Release to the Executive within seven (7) days following the Date of Termination, and (ii) if the Executive fails to execute the Release on or prior to the Release Expiration Date (as defined below) or timely revokes his/her acceptance of the Release thereafter, the Executive shall not be entitled to any payments or benefits otherwise conditioned on the Release. For purposes of this Section 23(c), "Release Expiration Date" shall mean the date that is twenty-one (21) days following the date upon which the Company timely delivers the Release to the Executive, or, in the event that the Executive's termination of employment is "in connection with an exit incentive or other employment termination program" (as such phrase is defined in the Age Discrimination in Employment Act of 1967), the date that is forty-five (45) days following such delivery date. To the extent that any payments of nonqualified deferred compensation (within the meaning of Section 409A) due under this Agreement as a result of the Executive's termination of employment are delayed pursuant to this Section 23(c), such amounts shall be paid in a lump sum on the first payroll date to occur on or after the 60th day following the date of Executive's termination of employment, provided that Executive executes and does not revoke the Release prior to such 60th day (and any applicable revocation period has expired).

24. Compensation Recovery Policy. The Executive acknowledges and agrees that, to the extent the Company adopts any clawback or similar policy in connection with or otherwise as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and any rules and regulations promulgated thereunder (including, without limitation, any listing rules or standards resulting therefrom), he shall, during the Term and thereafter, take all action necessary or appropriate to comply with such policy, as may be amended from time to time in the Company's sole discretion (including, without limitation, entering into any further agreements, amendments or policies necessary or appropriate to implement and/or enforce such policy). The Executive's obligations under this Section 24 shall survive the termination of this Agreement. For the

avoidance of doubt, other than as provided in this Agreement (including, this Section 24), or as otherwise required by applicable law or by the rules of any securities exchange or automated quotation system on which shares of the Company's capital stock are listed, quoted or traded, no vested equity award described in this Agreement shall be subject to any payment, termination or forfeiture obligation described in Section 12.5(a) of the 2010 Incentive Award Plan and the Executive shall not be required, and no award under such plan shall be conditioned on requiring Executive, to enter into any other agreement to the contrary.

25. Full Settlement. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and such amounts shall not be reduced whether or not the Executive obtains other employment.

26. Conflicts. To the extent this Agreement describes equity awards that shall be issued pursuant to the 2010 Incentive Award Plan, such equity awards shall be subject to the 2010 Incentive Award Plan; provided that, in the event of a conflict between any term or provision contained herein and a term or provision of the 2010 Incentive Award Plan, the applicable term or provision of this Agreement will govern and prevail.

[Signature pages follow]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date and year first above written.

COMPANY

By: /s/ Brian S. Young
Name: Brian S. Young
Title: Chief Human Resources Officer

*Signature Page to the
Employment Agreement for Michele Welsh*

EXECUTIVE

By: _____/s/Michele Welsh
Michele Welsh

*Signature Page to the
Employment Agreement for Michele Welsh*

Exhibit A

RELEASE OF CLAIMS

1. General Release.

(a) I acknowledge that my employment with Novanta Inc. (f/k/a GSI Group Inc.) (the "Company") and all subsidiaries and affiliates thereof terminated on [____]. I further acknowledge that the Company delivered this Release of Claims (the "Release") to me on [____].

(b) In exchange for the payments and benefits described in that certain Employment Agreement by and between the Company and me (the "Employment Agreement"), which I agree I am not otherwise entitled to receive absent execution and non-revocation of the Release, I and my representatives, agents, estate, heirs, successors and assigns ("Releasors") voluntarily agree to release and discharge the Company and its parents, affiliates, subsidiaries, predecessors, successors, assigns, plan sponsors and plan fiduciaries (and the current and former trustees, officers, directors, employees, and agents of each of the foregoing, all both individually, in their capacity acting on the Company's behalf and in their official capacities) (collectively "Releasees") generally from all claims, demands, actions, suits, damages, debts, judgments and liabilities of every name and nature, whether existing or contingent, known or unknown, suspected or unsuspected, in law or in equity in connection with my employment by or termination of employment with the Company, or any of my dealings, transactions or events involving the Releasees, arising on or before the date of this Release. This Release is intended by me to be all encompassing and to act as a full and total release of any claims that the Releasors may have or have had against the Releasees from the beginning of time to the date of this Release, including but not limited to all claims in contract (whether written or oral, express or implied), tort, equity and common law; any claims for wrongful discharge, breach of contract, or breach of the obligation of good faith and fair dealing; and/or any claims under any local, state or federal constitution, statute, law, ordinance, bylaw, or regulation dealing with either employment, employment discrimination, retaliation, mass layoffs, plant closings, and/or employment benefits and/or those laws, statutes or regulations concerning discrimination on the basis of race, color, creed, religion, age, sex, sexual harassment, sexual orientation, national origin, ancestry, handicap or disability, veteran status or any military service or application for military service or any other category protected by law (including, without limitation, claims under the Massachusetts Fair Employment Practices Act (Mass. Gen. Laws ch. 151B, §§1-10) and the Massachusetts Wage Act (Mass. Gen. Laws ch. 149, §§ 148-150)); and any federal, state or local law or regulation concerning securities, stock, stock options or restricted or performance stock units. This Release is for any relief, no matter how denominated, including but not limited to wages, back pay, front pay, benefits, compensatory damages, liquidated damages, punitive damages or attorney's fees. I also agree not to commence or cooperate in the prosecution or investigation of any lawsuit, administrative action or other claim or complaint against the Releasees, except as required by law.

(c) By this Release, I not only release and discharge the Releasees from any and all claims as stated above that the Releasors could make on my own behalf or on the behalf of others, but also those claims that might be made by any other person or organization on my behalf and I specifically waive any right to recover any damage awards as a member of any class in a case in which any claims against the Releasees are made involving any matters arising out of my employment by or termination of employment with the Company, or any of my dealings, transactions or events involving the Releasees

(d) I agree that, except for any payments or benefits set forth in Section 5 of the Employment Agreement that have not yet been paid, as applicable, the payments and benefits the Company previously provided to me are complete payment, settlement, accord and satisfaction with respect to all obligations and liabilities of the Releasees to the Releasors, and with respect to all claims, causes of action and damages that could be asserted by the Releasors against the Releasees regarding my employment or termination of employment with the Company, or any of my dealings, transactions or events involving the Releasees, including, without limitation, all claims for wages, salary, commissions, draws, car allowances, incentive pay, bonuses, business expenses, vacation, stock, stock options, restricted or performance stock units, severance pay, attorneys' fees, compensatory damages, exemplary damages, or other compensation, benefits, costs or sums. Notwithstanding anything in this Release to the contrary, this Release shall not affect and I do not waive: (i) rights to indemnification I may have under: (A) applicable law, (B) any charter document or bylaws, (C) any agreement between me and the Company or any other Releasee, (D) as an insured under any directors' and officers' liability insurance policy now or previously in force, (ii) any right I may have to obtain contribution in the event of the entry of judgment against me as a result of any act or failure act for which both I and any Releasee are jointly responsible; and (iii) my rights to vested benefits and payments under any stock options, restricted or performance stock units or other incentive plans or any agreements relating thereto (all of which are set forth in Section 5 of the Employment Agreement) or under any retirement plan, welfare benefit plan or other benefit or deferred compensation plan, all of which shall remain in effect in accordance with the terms and provisions thereof, or my rights as a stockholder or equity holder of the Company.

(e) I understand and agree that this Release will be binding on me and my heirs, administrators and assigns. I acknowledge that I have not assigned any claims or filed or initiated any legal proceedings against any of the Releasees.

(f) I acknowledge and agree that if any provision of this Release is found, held or deemed by a court of competent jurisdiction to be void, unlawful or unenforceable under any applicable statute or controlling law, the remainder of this Release shall continue in full force and effect.

(g) This Release is deemed made and entered into in the Commonwealth of Massachusetts, and in all respects shall be interpreted, enforced and governed under the internal laws of the Commonwealth of Massachusetts, to the extent not preempted by federal law.

(h) Notwithstanding the comprehensive release of claims set forth in the preceding paragraphs of this Section 1, nothing in this Release shall bar or prohibit me from contacting, seeking assistance from or participating in any proceeding before any federal or state administrative agency to the extent permitted by applicable federal, state and/or local law. However, I nevertheless will be prohibited to the fullest extent authorized by law from obtaining monetary damages in any agency proceeding in which I do so participate.

2. Waiver of Rights and Claims Under the Age Discrimination in Employment Act of 1967. Since I am 40 years of age or older, I acknowledge and agree that I have been informed that I have or may have specific rights and/or claims under the Age Discrimination in Employment Act of 1967 (the "ADEA") and I agree that:

(a) in consideration for the payments and benefits described in the Employment Agreement, which I am not otherwise entitled to receive absent execution and non-revocation of the Release, I specifically and voluntarily waive such rights and/or claims under the ADEA that I have or might have against the Releasees to the extent such rights and/or claims arose prior to the date I executed this Release;

(b) I understand that I am not waiving rights or claims under the ADEA which may arise after the date that I execute this Release;

(c) I have been advised to consult with or seek advice from an attorney of my choice or any other person of my choosing before executing this Release;

(d) I have been advised that I have twenty-one (21) days from the date I receive this Release (the "Consideration Period") to review this Release and consider its terms before signing it, and I acknowledge and agree that such Consideration Period will not be affected or extended by any changes, whether material or immaterial, that might be made to this Release;

(e) in entering into this Release I am not relying on any representation, promise or inducement made by the Company or its attorneys with the exception of those promises described in this Release; and

(f) I may revoke this Release for a period of seven (7) days after I sign it and all rights and obligations of both parties under this Release shall not become effective or enforceable until the date upon which the seven (7) day revocation period has expired. For such a revocation to be effective, the Company must receive it on or before the expiration of the seven (7) day revocation period.

* * * * *

I acknowledge and agree that this Release is a legally binding document and my signature will commit me to its terms. I acknowledge and agree that I have carefully read and fully understand all of the provisions of this Release and that I voluntarily enter into this Release by signing below. Upon execution, I agree to deliver a signed copy of this Release to [____], [____] of the Company.

Michele Welsh

Date: _____

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
CERTIFICATIONS**

I, Matthijs Glastra, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Novanta Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 9, 2022

/s/ Matthijs Glastra
Matthijs Glastra
Chief Executive Officer

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

CERTIFICATION

I, Robert J. Buckley, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Novanta Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 9, 2022

/s/ Robert J. Buckley
Robert J. Buckley
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Novanta Inc. (the “Company”) on Form 10-Q for the period ended July 1, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Matthijs Glastra, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Matthijs Glastra

Matthijs Glastra

Chief Executive Officer

August 9, 2022

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Novanta Inc. (the “Company”) on Form 10-Q for the period ended July 1, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Robert J. Buckley, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert J. Buckley

Robert J. Buckley

Chief Financial Officer

August 9, 2022