

**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 September 30, 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)

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

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

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 November 1, 2022, there were 35,690,210 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)

	September 30, 2022	December 31, 2021
ASSETS		
Current assets		
Cash and cash equivalents	\$ 84,580	\$ 117,393
Accounts receivable, net of allowance of \$741 and \$556, respectively	144,633	115,617
Inventories	162,807	125,657
Prepaid income taxes and income taxes receivable	994	1,997
Prepaid expenses and other current assets	14,721	13,161
Total current assets	<u>407,735</u>	<u>373,825</u>
Property, plant and equipment, net	95,030	87,439
Operating lease assets	43,520	48,338
Deferred tax assets	11,538	12,206
Other assets	5,543	5,586
Intangible assets, net	179,113	220,989
Goodwill	465,052	479,500
Total assets	<u>\$ 1,207,531</u>	<u>\$ 1,227,883</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of long-term debt	\$ 4,366	\$ 5,097
Accounts payable	79,577	68,514
Income taxes payable	7,822	4,514
Current portion of operating lease liabilities	7,663	7,334
Accrued expenses and other current liabilities	58,629	98,479
Total current liabilities	<u>158,057</u>	<u>183,938</u>
Long-term debt	438,447	429,361
Operating lease liabilities	40,907	45,700
Deferred tax liabilities	16,519	33,738
Income taxes payable	5,153	4,217
Other liabilities	6,246	9,638
Total liabilities	<u>665,329</u>	<u>706,592</u>
Commitments and contingencies (Note 15)		
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: 35,689 and 35,601, respectively	423,856	423,856
Additional paid-in capital	51,951	53,768
Retained earnings	115,322	56,533
Accumulated other comprehensive loss	(48,927)	(12,866)
Total stockholders' equity	<u>542,202</u>	<u>521,291</u>
Total liabilities and stockholders' equity	<u>\$ 1,207,531</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		Nine Months Ended	
	September 30, 2022	October 1, 2021	September 30, 2022	October 1, 2021
Revenue	\$ 222,958	\$ 177,726	\$ 642,530	\$ 507,833
Cost of revenue	124,550	101,428	358,601	290,389
Gross profit	98,408	76,298	283,929	217,444
Operating expenses:				
Research and development and engineering	21,349	17,468	63,866	53,104
Selling, general and administrative	40,301	31,296	120,191	94,189
Amortization of purchased intangible assets	6,472	4,139	20,987	11,300
Restructuring, acquisition, and related costs	1,625	8,120	2,650	16,485
Total operating expenses	69,747	61,023	207,694	175,078
Operating income	28,661	15,275	76,235	42,366
Interest income (expense), net	(4,062)	(1,710)	(9,928)	(4,496)
Foreign exchange transaction gains (losses), net	2,086	34	2,307	(299)
Other income (expense), net	87	(71)	(390)	(238)
Income before income taxes	26,772	13,528	68,224	37,333
Income tax provision (benefit)	4,282	(75)	9,435	756
Consolidated net income	\$ 22,490	\$ 13,603	\$ 58,789	\$ 36,577
Earnings per common share (Note 5):				
Basic	\$ 0.63	\$ 0.38	\$ 1.65	\$ 1.03
Diluted	\$ 0.63	\$ 0.38	\$ 1.64	\$ 1.02
Weighted average common shares outstanding—basic	35,729	35,447	35,625	35,366
Weighted average common shares outstanding—diluted	35,928	35,764	35,881	35,771

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		Nine Months Ended	
	September 30, 2022	October 1, 2021	September 30, 2022	October 1, 2021
Consolidated net income	\$ 22,490	\$ 13,603	\$ 58,789	\$ 36,577
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax ⁽¹⁾	(18,972)	(3,248)	(37,672)	(3,602)
Pension liability adjustments, net of tax ⁽²⁾	710	448	1,611	832
Total other comprehensive income (loss)	(18,262)	(2,800)	(36,061)	(2,770)
Total consolidated comprehensive income	<u>\$ 4,228</u>	<u>\$ 10,803</u>	<u>\$ 22,728</u>	<u>\$ 33,807</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 4 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 Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	# of Shares	Amount				
Three Months Ended September 30, 2022						
Balance at July 1, 2022	35,623	\$ 423,856	\$ 46,146	\$ 92,832	\$ (30,665)	\$ 532,169
Consolidated net income	—	—	—	22,490	—	22,490
Common shares issued under stock plans	67	—	—	—	—	—
Common shares withheld for taxes on vested stock awards	(1)	—	(149)	—	—	(149)
Repurchases of common shares	—	—	—	—	—	—
Share-based compensation	—	—	5,954	—	—	5,954
Other comprehensive income (loss), net of tax	—	—	—	—	(18,262)	(18,262)
Balance at September 30, 2022	35,689	\$ 423,856	\$ 51,951	\$ 115,322	\$ (48,927)	\$ 542,202
Nine Months Ended September 30, 2022						
Balance at December 31, 2021	35,601	\$ 423,856	\$ 53,768	\$ 56,533	\$ (12,866)	\$ 521,291
Consolidated net income	—	—	—	58,789	—	58,789
Common shares issued under stock plans	238	—	—	—	—	—
Common shares withheld for taxes on vested stock awards	(66)	—	(9,626)	—	—	(9,626)
Repurchases of common shares	(84)	—	(10,000)	—	—	(10,000)
Share-based compensation	—	—	17,809	—	—	17,809
Other comprehensive income (loss), net of tax	—	—	—	—	(36,061)	(36,061)
Balance at September 30, 2022	35,689	\$ 423,856	\$ 51,951	\$ 115,322	\$ (48,927)	\$ 542,202
Three Months Ended October 1, 2021						
Balance at July 2, 2021	35,489	\$ 423,856	\$ 52,243	\$ 29,176	\$ (12,211)	\$ 493,064
Consolidated net income	—	—	—	13,603	—	13,603
Common shares issued under stock plans	199	—	—	—	—	—
Common shares withheld for taxes on vested stock awards	(88)	—	(12,244)	—	—	(12,244)
Share-based compensation	—	—	8,490	—	—	8,490
Other comprehensive income (loss), net of tax	—	—	—	—	(2,800)	(2,800)
Balance at October 1, 2021	35,600	\$ 423,856	\$ 48,489	\$ 42,779	\$ (15,011)	\$ 500,113
Nine Months Ended October 1, 2021						
Balance at December 31, 2020	35,163	\$ 423,856	\$ 58,992	\$ 6,202	\$ (12,241)	\$ 476,809
Consolidated net income	—	—	—	36,577	—	36,577
Common shares issued under stock plans	658	—	—	—	—	—
Common shares withheld for taxes on vested stock awards	(221)	—	(30,672)	—	—	(30,672)
Share-based compensation	—	—	20,169	—	—	20,169
Other comprehensive income (loss), net of tax	—	—	—	—	\$ (2,770)	(2,770)
Balance at October 1, 2021	35,600	\$ 423,856	\$ 48,489	\$ 42,779	\$ (15,011)	\$ 500,113

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)

	Nine Months Ended	
	September 30, 2022	October 1, 2021
Cash flows from operating activities:		
Consolidated net income	\$ 58,789	\$ 36,577
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	40,999	30,613
Provision for inventory excess and obsolescence	1,940	3,187
Share-based compensation	17,809	20,169
Deferred income taxes	(14,628)	(3,064)
Inventory acquisition fair value adjustments	—	280
Write-off of unamortized deferred financing costs	624	—
Other	(152)	934
Changes in assets and liabilities which (used)/provided cash, excluding effects from business acquisitions:		
Accounts receivable	(34,444)	(21,458)
Inventories	(46,552)	(11,943)
Prepaid income taxes, income taxes receivable, prepaid expenses and other current assets	(2,041)	(7,043)
Accounts payable, income taxes payable, accrued expenses and other current liabilities	29,393	19,511
Other non-current assets and liabilities	(1,570)	(1,851)
Net cash provided by operating activities	50,167	65,912
Cash flows from investing activities:		
Cash paid for business acquisitions, net of working capital adjustments	(21,565)	(285,181)
Purchases of property, plant and equipment	(15,385)	(14,759)
Payment of contingent consideration related to acquisition of technology assets	(1,470)	(2,200)
Other investing activities	137	—
Net cash used in investing activities	(38,283)	(302,140)
Cash flows from financing activities:		
Borrowings under revolving credit facilities	69,941	280,000
Repayments under term loan and revolving credit facilities	(37,791)	(24,036)
Payments of debt issuance costs	(2,492)	—
Payments of withholding taxes from share-based awards	(9,626)	(30,672)
Repurchases of common shares	(10,000)	—
Payments of contingent consideration related to acquisitions	(46,254)	(1,836)
Purchase of a building under finance lease	—	(8,743)
Other financing activities	(447)	(423)
Net cash provided by (used in) financing activities	(36,669)	214,290
Effect of exchange rates on cash and cash equivalents	(8,028)	(721)
Increase (decrease) in cash and cash equivalents	(32,813)	(22,659)
Cash and cash equivalents, beginning of the period	117,393	125,054
Cash and cash equivalents, end of the period	\$ 84,580	\$ 102,395
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 8,962	\$ 3,679
Cash paid for income taxes	\$ 17,102	\$ 9,231
Income tax refunds received	\$ 164	\$ 1,201

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

NOVANTA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 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
AS OF SEPTEMBER 30, 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 nine months ended September 30, 2022 and October 1, 2021.

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

NOVANTA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2022
(Unaudited)

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 September 30, 2022 and December 31, 2021, contract liabilities were \$6.9 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 decrease in the contract liability balance during the nine months ended September 30, 2022 is primarily due to \$4.4 million of revenue recognized during the period that was included in the contract liability balance as of December 31, 2021, partially offset by cash payments received in advance of satisfying performance obligations.

Disaggregated Revenue

See Note 16 for the Company's disaggregation of revenue by segment, geography and end market.

NOVANTA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2022
(Unaudited)

3. Business Combinations

On August 11, 2022, the Company acquired 100% of the outstanding shares of MPH Medical Devices S.R.O. ("MPH"), a Czech Republic-based manufacturer of medical consumables with plastics specialization in making disposable tub-set-like products, for a total purchase price of €21.8 million (\$22.4 million), net of cash acquired. The acquisition was financed with borrowings under the Company's revolving credit facility and cash available on hand. The addition of MPH is expected to expand the Company's capacity and capabilities in the medical disposable tube set products within the Vision reportable segment.

Allocation of Purchase Price

The acquisition of MPH has been accounted for as a business combination. The purchase price is allocated based upon a valuation of the fair values of assets acquired and liabilities assumed as of the acquisition date. The excess of the purchase price over the fair values of the acquired tangible assets and assumed liabilities was recorded as goodwill for the acquisition. The Company's estimates and assumptions in determining the estimated fair value of certain assets and liabilities are subject to change within the measurement period (up to one year from the acquisition date) as a result of additional information obtained with regard to facts and circumstances that existed as of the acquisition date.

MPH

Based upon preliminary valuation, the total purchase price for MPH was allocated as follows (in thousands):

	Purchase Price Allocation
Cash	\$ 182
Accounts receivable	1,658
Inventories	957
Property, plant and equipment	12,094
Goodwill	9,863
Other assets	163
Total assets acquired	24,917
Accounts payable	562
Deferred tax liabilities	1,124
Other liabilities	664
Total liabilities assumed	2,350
Total assets acquired, net of liabilities assumed	22,567
Less: cash acquired	182
Purchase price, net of cash acquired	\$ 22,385

The purchase price allocation is preliminary as the Company is in the process of collecting additional information for the valuation of inventories, property plant and equipment, other liabilities, and unrecognized tax benefits.

The purchase price allocation resulted in \$9.9 million of goodwill. As the MPH acquisition was structured as a stock acquisition, the goodwill is not deductible for income tax purposes. The goodwill recorded represents the anticipated future benefits from the expansion of the Company's manufacturing capacity and capabilities for the medical disposal tube set products.

The operating results of MPH were included in the Company's results of operations beginning on August 12, 2022. MPH contributed revenues of \$2.1 million and a profit before income taxes of \$0.2 million to the Company's operating results for the nine months ended September 30, 2022.

Acquisition Costs

Acquisition costs are included in restructuring, acquisition, and related costs in the consolidated statements of operations. Acquisition costs for MPH were \$0.8 million and \$0.9 million for the three and nine months ended September 30, 2022, respectively.

NOVANTA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2022
(Unaudited)

4. 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)	(36,363)	(37,672)	1,309
Amounts reclassified from accumulated other comprehensive loss	302	—	302
Balance at September 30, 2022	<u>\$ (48,927)</u>	<u>\$ (43,425)</u>	<u>\$ (5,502)</u>

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

5. 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. The dilutive effects of outstanding common share equivalents, including outstanding restricted stock units, stock options, relative total shareholder return performance-based restricted stock units (“TSR-PSUs”) and other performance-based restricted stock units (“PSUs”), are 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		Nine Months Ended	
	September 30, 2022	October 1, 2021	September 30, 2022	October 1, 2021
Numerators:				
Consolidated net income	<u>\$ 22,490</u>	<u>\$ 13,603</u>	<u>\$ 58,789</u>	<u>\$ 36,577</u>
Denominators:				
Weighted average common shares outstanding— basic	35,729	35,447	35,625	35,366
Dilutive potential common shares	199	317	256	405
Weighted average common shares outstanding— diluted	<u>35,928</u>	<u>35,764</u>	<u>35,881</u>	<u>35,771</u>
Antidilutive potential common shares excluded from above	73	1	104	18
Earnings per Common Share:				
Basic	\$ 0.63	\$ 0.38	\$ 1.65	\$ 1.03
Diluted	\$ 0.63	\$ 0.38	\$ 1.64	\$ 1.02

For both the three and nine months ended September 30, 2022, 36 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 51 thousand performance-based restricted stock units granted to ATI Industrial 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 September 30, 2022.

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For both the three and nine months ended October 1, 2021, 45 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 October 1, 2021.

6. 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 would be payable in 2022 after the Sellers and the Company agree on the final amount for the Adjusted EBITDA. 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 nine months ended September 30, 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. The Company made the contingent consideration payment of \$45.0 million in August 2022. The estimated fair value of \$44.0 million included in the determination of the purchase price is reported as a cash outflow from financing activities in the consolidated statement of cash flows for the nine months ended September 30, 2022 while the remaining \$1.0 million payment is reported as a cash outflow from operating activities.

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 projections as of September 30, 2022, the fair value of the remaining contingent consideration was adjusted to €0.4 million (\$0.4 million).

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. During the three months ended July 1, 2022, the fair value of the remaining contingent consideration was adjusted to €1.8 million (\$1.9 million). The Company made the final installment of €1.8 million (\$1.9 million) in July 2022. The installment payments are reported as cash outflows from financing activities in the consolidated statement of cash flows for the respective periods.

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 through the end of 2021, the Company recognized an aggregate fair value of €5.5 million (\$6.3 million) for the acquired intangible assets. 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.

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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 September 30, 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	\$ 1,596	\$ 1,596	\$ —	\$ —
Prepaid expenses and other current assets:				
Foreign currency forward contracts	1,521	—	1,521	—
	<u>\$ 3,117</u>	<u>\$ 1,596</u>	<u>\$ 1,521</u>	<u>\$ —</u>
Liabilities				
Accrued expenses and other current liabilities:				
Contingent considerations - Current	\$ 113	\$ —	\$ —	\$ 113
Foreign currency forward contracts	794	—	794	—
Other liabilities:				
Contingent considerations - Long-term	274	—	—	274
	<u>\$ 1,181</u>	<u>\$ —</u>	<u>\$ 794</u>	<u>\$ 387</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 nine months ended September 30, 2022 were as follows (in thousands):

	Amount
Balance at December 31, 2021	\$ 50,924
Payments	(48,725)
Fair value adjustments	(1,382)
Effect of foreign exchange rates	(430)
Balance at September 30, 2022	<u>\$ 387</u>

See Note 10 to Consolidated Financial Statements for a discussion of the estimated fair value of the Company's outstanding debt.

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7. 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 September 30, 2022, the aggregate notional amount and fair value of the Company's foreign currency forward contracts was \$87.3 million and a net gain of \$0.7 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 \$0.8 million and \$2.3 million for the three and nine months ended September 30, 2022, respectively. The Company recognized an aggregate net gain of \$0.3 million and of \$0.9 million for the three and nine months ended October 1, 2021, respectively. These amounts were included in foreign exchange transaction gains (losses) in the consolidated statements of operations.

8. 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.

The following table summarizes changes in goodwill during the nine months ended September 30, 2022 (in thousands):

Balance at beginning of the period	\$ 479,500
Goodwill acquired from acquisitions	9,863
Effect of foreign exchange rate changes	(24,311)
Balance at end of the period	<u>\$ 465,052</u>

Goodwill by reportable segment as of September 30, 2022 was as follows (in thousands):

	Reportable Segment			Total
	Photonics	Vision	Precision Motion	
Goodwill	\$ 201,864	\$ 162,128	\$ 252,289	\$ 616,281
Accumulated impairment of goodwill	(102,461)	(31,722)	(17,046)	(151,229)
Total	<u>\$ 99,403</u>	<u>\$ 130,406</u>	<u>\$ 235,243</u>	<u>\$ 465,052</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>

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Intangible Assets

Intangible assets as of September 30, 2022 and December 31, 2021, respectively, are summarized as follows (in thousands):

	September 30, 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	\$ 178,968	\$ (125,375)	\$ 53,593	\$ 189,609	\$ (122,130)	\$ 67,479
Customer relationships	215,274	(112,689)	102,585	228,656	(104,386)	124,270
Customer backlog	6,795	(6,795)	—	6,862	(2,254)	4,608
Trademarks and trade names	22,644	(12,736)	9,908	23,976	(12,371)	11,605
Amortizable intangible assets	423,681	(257,595)	166,086	449,103	(241,141)	207,962
Non-amortizable intangible assets:						
Trade names	13,027	—	13,027	13,027	—	13,027
Totals	\$ 436,708	\$ (257,595)	\$ 179,113	\$ 462,130	\$ (241,141)	\$ 220,989

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		Nine Months Ended	
	September 30, 2022	October 1, 2021	September 30, 2022	October 1, 2021
Amortization expense – cost of revenue	\$ 3,247	\$ 3,316	\$ 10,004	\$ 9,275
Amortization expense – operating expenses	6,472	4,139	20,987	11,300
Total amortization expense	\$ 9,719	\$ 7,455	\$ 30,991	\$ 20,575

Estimated amortization expense for each of the five succeeding years and thereafter as of September 30, 2022 was as follows (in thousands):

Year Ending December 31,	Cost of Revenue	Operating Expenses	Total
2022 (remainder of year)	\$ 3,186	\$ 5,242	\$ 8,428
2023	11,583	19,633	31,216
2024	9,434	16,467	25,901
2025	8,041	13,931	21,972
2026	6,750	11,835	18,585
Thereafter	14,599	45,385	59,984
Total	\$ 53,593	\$ 112,493	\$ 166,086

9. Supplementary Balance Sheet Information

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

Inventories

	September 30, 2022	December 31, 2021
Raw materials	\$ 112,259	\$ 84,038
Work-in-process	23,978	20,600
Finished goods	25,485	19,486
Demo and consigned inventory	1,085	1,533
Total inventories	\$ 162,807	\$ 125,657

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Accrued Expenses and Other Current Liabilities

	September 30, 2022	December 31, 2021
Accrued compensation and benefits	\$ 32,300	\$ 24,725
Accrued warranty	4,738	4,783
Contract liabilities, current portion	6,695	6,995
Finance lease obligations	651	599
Accrued contingent considerations and earn-outs	113	47,522
Other	14,132	13,855
Total	<u>\$ 58,629</u>	<u>\$ 98,479</u>

Accrued Warranty

	Nine Months Ended	
	September 30, 2022	October 1, 2021
Balance at beginning of the period	\$ 4,783	\$ 4,919
Provision charged to cost of revenue	2,091	1,215
Warranty liabilities acquired from acquisitions	—	541
Use of provision	(1,933)	(2,075)
Foreign currency exchange rate changes	(203)	(73)
Balance at end of the period	<u>\$ 4,738</u>	<u>\$ 4,527</u>

Other Long-Term Liabilities

	September 30, 2022	December 31, 2021
Finance lease obligations	\$ 4,825	\$ 5,309
Accrued contingent considerations and earn-outs	274	3,402
Other	1,147	927
Total	<u>\$ 6,246</u>	<u>\$ 9,638</u>

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10. Debt

Debt consisted of the following (in thousands):

	September 30, 2022	December 31, 2021
Senior Credit Facilities – term loan	\$ 4,399	\$ 5,126
Less: unamortized debt issuance costs	(33)	(29)
Total current portion of long-term debt	\$ 4,366	\$ 5,097
Senior Credit Facilities – term loan	\$ 71,260	\$ 86,879
Senior Credit Facilities – revolving credit facility	372,287	346,579
Less: unamortized debt issuance costs	(5,100)	(4,097)
Total long-term debt	\$ 438,447	\$ 429,361
Total Senior Credit Facilities	\$ 442,813	\$ 434,458

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 include 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 €3.4 million (\$3.5 million) towards its term loan and \$34.3 million towards its revolving credit facility during the nine months ended September 30, 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.

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 September 30, 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.

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Fair Value of Debt

As of September 30, 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.

11. 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		Nine Months Ended	
	September 30, 2022	October 1, 2021	September 30, 2022	October 1, 2021
Operating lease cost	\$ 2,544	\$ 2,418	\$ 7,936	\$ 6,213
Finance lease cost				
Amortization of right-of-use assets	150	149	451	451
Interest on lease liabilities	77	85	234	257
Variable lease cost	271	275	888	834
Total lease cost	<u>\$ 3,042</u>	<u>\$ 2,927</u>	<u>\$ 9,509</u>	<u>\$ 7,755</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):

	September 30, 2022	December 31, 2021
Operating leases		
Operating lease right-of-use assets	\$ 43,520	\$ 48,338
Current portion of operating lease liabilities	\$ 7,663	\$ 7,334
Operating lease liabilities	40,907	45,700
Total operating lease liabilities	\$ 48,570	\$ 53,034
Finance leases		
Property, plant and equipment, gross	\$ 9,582	\$ 9,582
Accumulated depreciation	(5,520)	(5,068)
Finance lease assets included in property, plant and equipment, net	\$ 4,062	\$ 4,514
Accrued expenses and other current liabilities	\$ 651	\$ 599
Other liabilities	4,825	5,309
Total finance lease liabilities	\$ 5,476	\$ 5,908
Weighted-average remaining lease term (in years):		
Operating leases	8.2	9.0
Finance leases	6.8	7.5
Weighted-average discount rate:		
Operating leases	4.67 %	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):

	September 30, 2022	October 1, 2021
Cash paid for amounts included in lease liabilities:		
Operating cash flows from finance leases	\$ 234	\$ 257
Operating cash flows from operating leases	\$ 5,921	\$ 5,562
Financing cash flows from finance leases	\$ 447	\$ 9,166
Supplemental non-cash information:		
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 4,621	\$ 15,340

During the nine months ended October 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 September 30, 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)	\$ 2,434	\$ 243
2023	9,030	930
2024	8,376	954
2025	8,013	954
2026	6,940	979
Thereafter	25,347	2,506
Total minimum lease payments	60,140	6,566
Less: Interest	(11,570)	(1,090)
Present value of lease liabilities	<u>\$ 48,570</u>	<u>\$ 5,476</u>

12. 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 September 30, 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 three months ended July 1, 2022, the Company completed the 2018 Repurchase Plan and repurchased 80 thousand shares for an aggregate purchase price of \$9.5 million at an average price of \$118.97 per share. Since the inception of the 2018 Repurchase Plan, the Company has repurchased a cumulative total of 264 thousand shares for an aggregate purchase price of \$25.0 million at an average price of \$94.57 per share.

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 three months ended July 1, 2022, the Company 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. During the three months ended September 30, 2022, the Company did not repurchase any shares. As of September 30, 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		Nine Months Ended	
	September 30, 2022	October 1, 2021	September 30, 2022	October 1, 2021
Selling, general and administrative	\$ 4,649	\$ 4,360	\$ 13,906	\$ 13,123
Research and development and engineering	586	534	1,780	1,776
Cost of revenue	719	631	2,123	2,305
Restructuring, acquisition, and related costs	—	2,965	—	2,965
Total share-based compensation expense	<u>\$ 5,954</u>	<u>\$ 8,490</u>	<u>\$ 17,809</u>	<u>\$ 20,169</u>

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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 nine months ended September 30, 2022 and October 1, 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 (the "Board"). 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. Outstanding DSUs are converted into common shares upon Board members' resignation or retirement from the Board. During the nine months ended September 30, 2022, 52 thousand shares of outstanding DSUs were converted into common shares upon the retirement or resignation of certain Board members. There were 38 thousand and 91 thousand DSUs outstanding as of September 30, 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 nine months ended September 30, 2022:

	Shares (In thousands)	Weighted Average Grant Date Fair Value
Unvested at December 31, 2021	292	\$ 115.42
Granted	118	\$ 136.41
Vested	(135)	\$ 114.12
Forfeited	(13)	\$ 126.79
Unvested at September 30, 2022	262	\$ 124.72
Expected to vest as of September 30, 2022	242	

The total fair value of RSUs and DSUs that vested during the nine months ended September 30, 2022 was \$18.1 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 statement 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 nine months ended September 30, 2022:

	Shares (In thousands)	Weighted Average Grant Date Fair Value
Unvested at December 31, 2021	162	\$ 122.26
Granted	107	\$ 159.00
Vested	(41)	\$ 108.58
Forfeited	(10)	\$ 156.62
Unvested at September 30, 2022	218	\$ 144.40
Expected to vest as of September 30, 2022	230	

The unvested PSUs are shown at target in the table above. As of September 30, 2022, the maximum number of common shares to be earned under these PSU grants was approximately 343 thousand shares.

The total fair value of PSUs that vested during the nine months ended September 30, 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:

	Nine Months Ended September 30, 2022
Grant-date stock price	\$ 137.29
Expected volatility	40.33 %
Risk-free interest rate	1.81 %
Expected annual dividend yield	—
Fair value	\$ 144.38

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 nine months ended September 30, 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 September 30, 2022	100	\$ 62.77
Exercisable as of September 30, 2022	60	
Expected to vest as of September 30, 2022	40	

The aggregate Black-Scholes fair value of \$1.9 million for the stock options granted during the nine months ended September 30, 2022 was estimated using the following assumptions as of the grant date:

	Nine Months Ended September 30, 2022
Expected option term in years	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 six months longer than the expected option term. The expected annual dividend yield is zero as the Company does not have plans to issue dividends.

13. 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 16.0% for the three months ended September 30, 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 13.8% for the nine months ended September 30, 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 nine months ended September 30, 2022, the windfall tax benefits upon vesting of certain share-based compensation awards had a benefit of 0.2% on the Company's effective tax rate.

Beginning in January 2022, the Tax Cuts and Jobs Act of 2017 ("TCJA") requires that 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 \$9.2 million for the relevant R&D expenditures. This provision also has an indirect benefit of 3.8% on the Company's effective tax rate for the nine months ended September 30, 2022, as the Company's estimated Foreign Derived Intangible Income deduction has increased as a result of increased U.S. taxable income. The provision for income taxes for both the three months and the nine months ended September 30, 2022 reflects the impact of the TCJA.

The Company's effective tax rate of (0.6%) for the three months ended October 1, 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 windfall tax benefits upon vesting of certain share-based compensation awards, partially offset by an increase in valuation allowances.

The Company's effective tax rate of 2.0% for the nine months ended October 1, 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 and an increase in valuation allowances during the period. For the nine months ended October 1, 2021, the windfall tax benefits upon vesting of certain share-based compensation awards had a benefit of 14.5% on the Company's effective tax rate.

14. 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		Nine Months Ended	
	September 30, 2022	October 1, 2021	September 30, 2022	October 1, 2021
2022 restructuring	\$ 889	\$ —	\$ 889	\$ —
2020 restructuring	887	5,185	2,119	7,688
2019 restructuring	—	—	—	208
Total restructuring charges	\$ 1,776	\$ 5,185	\$ 3,008	\$ 7,896
Acquisition and related charges	(151)	2,935	(358)	8,589
Total restructuring, acquisition, and related costs	\$ 1,625	\$ 8,120	\$ 2,650	\$ 16,485

2022 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 2022 restructuring program in the third quarter of 2022. 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 in line with the Company's multi-year gross margin expansion program. During the three months ended September 30, 2022, the Company recorded \$0.9 million in severance costs in connection with the 2022 restructuring program. The \$0.9 million severance costs were included in the Company's Photonics segment. As of September 30, 2022, the Company had incurred cumulative costs related to this restructuring plan totaling \$0.9 million. The Company anticipates substantially completing the 2022 restructuring program by the end of 2023 and expects to incur additional restructuring charges of \$5.0 million to \$6.0 million related to the 2022 restructuring program.

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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 nine months ended September 30, 2022, the Company recorded \$0.9 million and \$2.1 million, respectively, in severance and other costs in connection with the 2020 restructuring program. As of September 30, 2022, the Company had incurred cumulative costs related to this restructuring plan totaling \$10.2 million. The Company anticipates substantially completing the 2020 restructuring program in the first quarter of 2023 and expects to incur additional restructuring charges of \$1.5 million to \$2.0 million related to the 2020 restructuring program.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2022	October 1, 2021	September 30, 2022	October 1, 2021
Photonics	\$ 758	\$ 2,349	\$ 1,952	\$ 2,839
Vision	101	193	207	890
Precision Motion	22	2,643	(46)	3,959
Unallocated Corporate and Shared Services	6	—	6	—
Total	\$ 887	\$ 5,185	\$ 2,119	\$ 7,688

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 nine months ended September 30, 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	3,008	1,303	1,432	273
Cash payments	(2,519)	(1,527)	(722)	(270)
Non-cash charges and other adjustments	(1,325)	(163)	(1,160)	(2)
Balance at September 30, 2022	\$ 1,850	\$ 1,720	\$ 100	\$ 30

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Acquisition and Related Charges

Acquisition costs in connection with business combinations, including finders' fees, legal, valuation, and other professional or consulting fees, totaled \$0.8 million and \$1.1 million for the three and nine months ended September 30, 2022, respectively, and \$2.9 million and \$4.7 million for the three and nine months ended October 1, 2021, respectively. The Company incurred zero costs for the three and nine months ended September 30, 2022, and \$0.1 million and \$1.9 million in legal costs for the three and nine months ended October 1, 2021 related to a dispute involving a company that was acquired in 2019. During the three and nine months ended September 30, 2022, the Company recognized \$(1.0) million and \$(1.4) million, respectively, of earn-out expenses (income) related to prior-year acquisitions. During the three and nine months ended October 1, 2021, the Company recognized less than \$(0.1) million and \$1.9 million, respectively, of earn-out expenses (income) related to prior-year acquisitions. The majority of acquisition and related costs for the three and nine months ended September 30, 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 nine months ended October 1, 2021 were included in the Company's Precision Motion, Vision, and Unallocated Corporate and Shared Services reportable segments.

15. Commitments and Contingencies

Purchase Commitments

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

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.

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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.

16. 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 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.

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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		Nine Months Ended	
	September 30, 2022	October 1, 2021	September 30, 2022	October 1, 2021
Revenue				
Photonics	\$ 70,799	\$ 55,263	\$ 203,042	\$ 176,113
Vision	73,345	65,346	200,911	196,429
Precision Motion	78,814	57,117	238,577	135,291
Total	<u>\$ 222,958</u>	<u>\$ 177,726</u>	<u>\$ 642,530</u>	<u>\$ 507,833</u>
	Three Months Ended		Nine Months Ended	
	September 30, 2022	October 1, 2021	September 30, 2022	October 1, 2021
Gross Profit				
Photonics	\$ 34,699	\$ 25,311	\$ 94,268	\$ 83,014
Vision	28,201	24,763	79,966	76,132
Precision Motion	36,832	27,743	113,846	64,694
Unallocated Corporate and Shared Services	(1,324)	(1,519)	(4,151)	(6,396)
Total	<u>\$ 98,408</u>	<u>\$ 76,298</u>	<u>\$ 283,929</u>	<u>\$ 217,444</u>
	Three Months Ended		Nine Months Ended	
	September 30, 2022	October 1, 2021	September 30, 2022	October 1, 2021
Gross Profit Margin				
Photonics	49.0 %	45.8 %	46.4 %	47.1 %
Vision	38.4 %	37.9 %	39.8 %	38.8 %
Precision Motion	46.7 %	48.6 %	47.7 %	47.8 %
Total	44.1 %	42.9 %	44.2 %	42.8 %
	Three Months Ended		Nine Months Ended	
	September 30, 2022	October 1, 2021	September 30, 2022	October 1, 2021
Operating Income (Loss)				
Photonics	\$ 18,351	\$ 9,294	\$ 45,782	\$ 35,885
Vision	8,744	5,606	20,811	12,178
Precision Motion	15,800	14,957	48,222	34,681
Unallocated Corporate and Shared Services	(14,234)	(14,582)	(38,580)	(40,378)
Total	<u>\$ 28,661</u>	<u>\$ 15,275</u>	<u>\$ 76,235</u>	<u>\$ 42,366</u>
	Three Months Ended		Nine Months Ended	
	September 30, 2022	October 1, 2021	September 30, 2022	October 1, 2021
Depreciation and Amortization Expenses				
Photonics	\$ 2,760	\$ 2,901	\$ 8,234	\$ 8,703
Vision	4,240	5,239	12,989	15,793
Precision Motion	6,050	2,691	19,467	5,916
Unallocated Corporate and Shared Services	93	59	309	201
Total	<u>\$ 13,143</u>	<u>\$ 10,890</u>	<u>\$ 40,999</u>	<u>\$ 30,613</u>

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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		Nine Months Ended	
	September 30, 2022	October 1, 2021	September 30, 2022	October 1, 2021
United States	\$ 99,230	\$ 72,972	\$ 268,585	\$ 191,699
Germany	34,625	25,313	99,526	71,448
Rest of Europe	33,996	34,163	105,327	105,338
China	24,209	22,230	80,877	68,286
Rest of Asia-Pacific	26,886	21,256	74,400	64,765
Other	4,012	1,792	13,815	6,297
Total	\$ 222,958	\$ 177,726	\$ 642,530	\$ 507,833

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		Nine Months Ended	
	September 30, 2022	October 1, 2021	September 30, 2022	October 1, 2021
Medical	50 %	53 %	48 %	53 %
Advanced Industrial	50 %	47 %	52 %	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 nine months ended September 30, 2022, the medical market accounted for approximately 48% 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 nine months ended September 30, 2022, the advanced industrial market accounted for approximately 52% 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

Acquisition of MPH Medical Devices S.R.O.

On August 11, 2022, we acquired 100% of the outstanding shares of MPH Medical Devices S.R.O. ("MPH"), a Czech Republic-based manufacturer of medical consumables with plastics specialization in making disposable tub-set-like products, for a total purchase price of €21.8 million (\$22.4 million), net of cash acquired. The acquisition was financed with borrowings under our revolving credit facility and cash available on hand. The addition of MPH is expected to expand the Company's manufacturing capacity and capabilities in the medical disposable tube set products within the Vision reportable segment.

Amendment to 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 and Supply Chain Disruptions 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. 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 varied across the countries in which we operate. Some 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 China have been impacted to a limited degree by these 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 September 30, 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 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 Nine Months Ended September 30, 2022 Compared with the Three and Nine Months Ended October 1, 2021

Overview of Financial Results

Total revenue of \$223.0 million for the three months ended September 30, 2022 increased \$45.2 million, or 25.5%, 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 \$22.3 million, or 12.6%. In addition, foreign currency exchange rates adversely impacted our revenue by \$13.7 million, or 7.7%, for the three months ended September 30, 2022.

Total revenue of \$642.5 million for the nine months ended September 30, 2022 increased \$134.7 million, or 26.5%, 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 \$90.1 million, or 17.7%. In addition, foreign currency exchange rates adversely impacted our revenue by \$25.6 million, or 5.0%, for the nine months ended September 30, 2022.

Operating income of \$28.7 million for the three months ended September 30, 2022 increased \$13.4 million, or 87.6%, from the prior year period. This increase was attributable to an increase in gross profit of \$22.1 million primarily attributable to higher revenue, an increase in gross profit margin, and a decrease in restructuring, acquisition, and related charges of \$6.5 million, partially offset by an increase in research and development and engineering ("R&D") expenses of \$3.9 million, an increase in selling, general and administrative ("SG&A") expenses of \$9.0 million and an increase in amortization expense of \$2.3 million.

Operating income of \$76.2 million for the nine months ended September 30, 2022 increased \$33.9 million, or 79.9%, from the prior year period. This increase was attributable to an increase in gross profit of \$66.5 million primarily attributable to higher revenue, an increase in gross profit margin, and a decrease in restructuring, acquisition, and related charges of \$13.8 million, partially offset by an increase in R&D expenses of \$10.8 million, an increase in SG&A expenses of \$26.0 million and an increase in amortization expense of \$9.7 million.

Basic earnings per common share ("Basic EPS") of \$0.63 for the three months ended September 30, 2022 increased \$0.25 from the prior year period. Diluted earnings per common share ("Diluted EPS") of \$0.63 for the three months ended September 30, 2022 increased \$0.25 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.

Basic EPS of \$1.65 for the nine months ended September 30, 2022 increased \$0.62 from the prior year period. Diluted EPS of \$1.64 for the nine months ended September 30, 2022 increased \$0.62 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
	September 30, 2022	October 1, 2021		
Photonics	\$ 70,799	\$ 55,263	\$ 15,536	28.1 %
Vision	73,345	65,346	7,999	12.2 %
Precision Motion	78,814	57,117	21,697	38.0 %
Total	<u>\$ 222,958</u>	<u>\$ 177,726</u>	<u>\$ 45,232</u>	25.5 %
	Nine Months Ended		Increase (Decrease)	Percentage Change
	September 30, 2022	October 1, 2021		
Photonics	\$ 203,042	\$ 176,113	\$ 26,929	15.3 %
Vision	200,911	196,429	4,482	2.3 %
Precision Motion	238,577	135,291	103,286	76.3 %
Total	<u>\$ 642,530</u>	<u>\$ 507,833</u>	<u>\$ 134,697</u>	26.5 %

Photonics

Photonics segment revenue for the three months ended September 30, 2022 increased by \$15.5 million, or 28.1%, versus the prior year period, primarily due to increased demand in advanced industrial and medical markets.

Photonics segment revenue for the nine months ended September 30, 2022 increased by \$26.9 million, or 15.3%, 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 September 30, 2022 increased by \$8.0 million, or 12.2%, versus the prior year period, primarily due to increases in sales from our minimally invasive surgery products.

Vision segment revenue for the nine months ended September 30, 2022 increased by \$4.5 million, or 2.3%, versus the prior year period, primarily due to increases in sales from our minimally invasive surgery products, partially offset by shortages of raw materials and other supply chain disruptions.

Precision Motion

Precision Motion segment revenue for the three months ended September 30, 2022 increased by \$21.7 million, or 38.0%, versus the prior year period, primarily due to \$20.3 million of revenue contributions from 2021 acquisitions.

Precision Motion segment revenue for the nine months ended September 30, 2022 increased by \$103.3 million, or 76.3%, versus the prior year period, primarily due to \$88.0 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		Nine Months Ended	
	September 30, 2022	October 1, 2021	September 30, 2022	October 1, 2021
Gross profit:				
Photonics	\$ 34,699	\$ 25,311	\$ 94,268	\$ 83,014
Vision	28,201	24,763	79,966	76,132
Precision Motion	36,832	27,743	113,846	64,694
Unallocated Corporate and Shared Services	(1,324)	(1,519)	(4,151)	(6,396)
Total	<u>\$ 98,408</u>	<u>\$ 76,298</u>	<u>\$ 283,929</u>	<u>\$ 217,444</u>
Gross profit margin:				
Photonics	49.0 %	45.8 %	46.4 %	47.1 %
Vision	38.4 %	37.9 %	39.8 %	38.8 %
Precision Motion	46.7 %	48.6 %	47.7 %	47.8 %
Total	44.1 %	42.9 %	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 September 30, 2022 increased \$9.4 million, or 37.1%, versus the prior year period, primarily due to an increase in both revenue and gross profit margin. Photonics segment gross profit margin was 49.0% for the three months ended September 30, 2022, versus a gross profit margin of 45.8% for the prior year period. The increase in gross profit margin was primarily attributable to improved factory productivity and utilization.

Photonics segment gross profit for the nine months ended September 30, 2022 increased \$11.3 million, or 13.6%, versus the prior year period, primarily due to an increase in revenue. Photonics segment gross profit margin was 46.4% for the nine months

ended September 30, 2022, versus a gross profit margin of 47.1% 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 September 30, 2022 increased \$3.4 million, or 13.9%, versus the prior year period, primarily due to an increase in revenue. Vision segment gross profit margin was 38.4% for the three months ended September 30, 2022, versus a gross profit margin of 37.9% for the prior year period.

Vision segment gross profit for the nine months ended September 30, 2022 increased \$3.8 million, or 5.0%, versus the prior year period, primarily due to an increase in both revenue and gross profit margin. Vision segment gross profit margin was 39.8% for the nine months ended September 30, 2022, versus a gross profit margin of 38.8% 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 September 30, 2022 increased \$9.1 million, or 32.8%, versus the prior year period, primarily due to an increase in revenue. Precision Motion segment gross profit margin was 46.7% for the three months ended September 30, 2022, versus a gross profit margin of 48.6% for the prior year period. The decrease in gross profit margin was primarily attributable to supply chain disruptions, raw material cost inflation and unfavorable product mix.

Precision Motion segment gross profit for the nine months ended September 30, 2022 increased \$49.2 million, or 76.0%, versus the prior year period, primarily due to an increase in revenue. Precision Motion segment gross profit margin was 47.7% for the nine months ended September 30, 2022, versus a gross profit margin of 47.8% for the prior year period.

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 September 30, 2022 decreased by \$0.2 million versus the prior year period.

Unallocated corporate and shared services costs for the nine months ended September 30, 2022 decreased by \$2.2 million versus the prior year period primarily due to reduced COVID-19 testing costs for employees of \$3.1 million.

Operating Expenses

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

	Three Months Ended		Nine Months Ended	
	September 30, 2022	October 1, 2021	September 30, 2022	October 1, 2021
Research and development and engineering	\$ 21,349	\$ 17,468	\$ 63,866	\$ 53,104
Selling, general and administrative	40,301	31,296	120,191	94,189
Amortization of purchased intangible assets	6,472	4,139	20,987	11,300
Restructuring, acquisition, and related costs	1,625	8,120	2,650	16,485
Total	<u>\$ 69,747</u>	<u>\$ 61,023</u>	<u>\$ 207,694</u>	<u>\$ 175,078</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 \$21.3 million, or 9.6% of revenue, during the three months ended September 30, 2022, versus \$17.5 million, or 9.8% of revenue, during the prior year period. R&D expenses increased in terms of total dollars primarily due to expenses related to 2021 acquisitions.

R&D expenses were \$63.9 million, or 9.9% of revenue, during the nine months ended September 30, 2022, versus \$53.1 million, or 10.5% 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 \$40.3 million, or 18.1% of revenue, during the three months ended September 30, 2022, versus \$31.3 million, or 17.6% of revenue, during the prior year period. SG&A expenses increased in terms of total dollars and as a percentage of revenue primarily due to SG&A expenses related to 2021 acquisitions and increases in variable compensation and discretionary spending.

SG&A expenses were \$120.2 million, or 18.7% of revenue, during the nine months ended September 30, 2022, versus \$94.2 million, or 18.5% of revenue, during the prior year period. SG&A expenses increased in terms of total dollars and as a percentage of revenue 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 \$6.5 million, or 2.9% of revenue, during the three months ended September 30, 2022, versus \$4.1 million, or 2.3% 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 \$21.0 million, or 3.3% of revenue, during the nine months ended September 30, 2022, versus \$11.3 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 \$1.6 million during the three months ended September 30, 2022, versus \$8.1 million during the prior year period. The acquisition and related costs decreased primarily due to a \$2.1 million reduction in acquisition and related expenses and a \$1.0 million reduction in earnout expense related to a prior year acquisition. The restructuring costs decreased \$3.5 million primarily related to decreased expenses for the restructuring plans.

We recorded restructuring, acquisition, and related costs of \$2.7 million during the nine months ended September 30, 2022, versus \$16.5 million during the prior year period. The acquisition and related costs decreased primarily due to a \$3.4 million reduction in earnout expenses related to prior year acquisitions, a \$2.0 million reduction in legal fees and a \$3.6 million reduction in other acquisition and related expenses. The restructuring costs decreased \$4.9 million related to decreased expenses for the restructuring plans.

Operating Income (Loss) by Segment

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

	Three Months Ended		Nine Months Ended	
	September 30, 2022	October 1, 2021	September 30, 2022	October 1, 2021
Operating Income (Loss)				
Photonics	\$ 18,351	\$ 9,294	\$ 45,782	\$ 35,885
Vision	8,744	5,606	20,811	12,178
Precision Motion	15,800	14,957	48,222	34,681
Unallocated Corporate and Shared Services	(14,234)	(14,582)	(38,580)	(40,378)
Total	<u>\$ 28,661</u>	<u>\$ 15,275</u>	<u>\$ 76,235</u>	<u>\$ 42,366</u>

Photonics

Photonics segment operating income was \$18.4 million, or 25.9% of revenue, during the three months ended September 30, 2022, versus \$9.3 million, or 16.8% of revenue, during the prior year period. The increase in operating income was primarily due to an increase in gross profit of \$9.4 million, and a decrease in restructuring, acquisition, and related costs of \$1.6 million, partially offset by an increase in R&D costs of \$1.0 million and an increase in SG&A expenses of \$0.9 million.

Photonics segment operating income was \$45.8 million, or 22.5% of revenue, during the nine months ended September 30, 2022, versus \$35.9 million, or 20.4% of revenue, during the prior year period. The increase in operating income was primarily due to an increase in gross profit of \$11.3 million, and a decrease in restructuring, acquisition, and related costs of \$2.6 million, partially offset by an increase in R&D costs of \$2.0 million and an increase in SG&A expenses of \$1.8 million.

Vision

Vision segment operating income was \$8.7 million, or 11.9% of revenue, during the three months ended September 30, 2022, versus \$5.6 million, or 8.6% of revenue, during the prior year period. The increase in operating income was primarily due to an increase in gross profit of \$3.4 million and a decrease in restructuring, acquisition, and related costs of \$0.3 million, partially offset by an increase in SG&A expenses of \$0.8 million.

Vision segment operating income was \$20.8 million, or 10.4% of revenue, during the nine months ended September 30, 2022, versus \$12.2 million, or 6.2% of revenue, during the prior year period. The increase in operating income was primarily due to an increase in gross profit of \$3.8 million, a decrease in restructuring, acquisition, and related costs of \$3.2 million, a decrease in R&D costs of \$1.2 million, and a decrease in amortization expense of \$1.2 million, partially offset by an increase in SG&A expenses of \$0.8 million.

Precision Motion

Precision Motion segment operating income was \$15.8 million, or 20.0% of revenue, during the three months ended September 30, 2022, versus \$15.0 million, or 26.2% of revenue, during the prior year period. The increase in operating income was primarily due to an increase in gross profit of \$9.1 million and a decrease in restructuring, acquisition, and related costs of \$2.6 million, partially offset by increases in R&D costs of \$2.7 million, SG&A expenses of \$5.4 million, and amortization expense of \$2.8 million primarily as a result of prior year acquisitions.

Precision Motion segment operating income was \$48.2 million, or 20.2% of revenue, during the nine months ended September 30, 2022, versus \$34.7 million, or 25.6% of revenue, during the prior year period. The increase in operating income was primarily due to an increase in gross profit of \$49.2 million, and a decrease in restructuring, acquisition, and related costs of \$4.2 million, partially offset by increases in R&D costs of \$10.0 million, SG&A expenses of \$19.1 million, and amortization expense of \$10.8 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 September 30, 2022 decreased by \$0.3 million versus the prior year period primarily due to a decrease in costs related to COVID-19 testing for employees of \$0.4 million included in cost of revenue, and a decrease in restructuring, acquisition, and related costs of \$2.1 million, partially offset by an increase in SG&A expenses of \$1.9 million.

Unallocated corporate and shared services costs for the nine months ended September 30, 2022 decreased by \$1.8 million versus the prior year period primarily due to a decrease in costs related to COVID-19 testing for employees of \$3.1 million included in cost of revenue, and a decrease in restructuring, acquisition, and related costs of \$3.8 million, partially offset by an increase in SG&A expenses of \$4.3 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		Nine Months Ended	
	September 30, 2022	October 1, 2021	September 30, 2022	October 1, 2021
Interest income (expense), net	\$ (4,062)	\$ (1,710)	\$ (9,928)	\$ (4,496)
Foreign exchange transaction gains (losses), net	2,086	34	2,307	(299)
Other income (expense), net	87	(71)	(390)	(238)

Interest Income (Expense), Net

Net interest expense was \$4.1 million for the three months ended September 30, 2022, versus \$1.7 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 3.37% during the three months ended September 30, 2022, versus 2.28% during the prior year period.

Net interest expense was \$9.9 million for the nine months ended September 30, 2022, versus \$4.5 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 2.72% during the nine months ended September 30, 2022, versus 2.12% during the prior year period.

Foreign Exchange Transaction Gains (Losses), Net

Foreign exchange transaction gains (losses) were \$2.1 million net gains for the three months ended September 30, 2022, versus less than \$0.1 million net gains in the prior year period. The increase in net gains was primarily due to changes in the value of the U.S. Dollar against the British Pound and Euro.

Foreign exchange transaction gains (losses) were \$2.3 million net gains for the nine months ended September 30, 2022, versus \$(0.3) million net losses in the prior year period. The increase in net gains was primarily due to changes in the value of the U.S. Dollar against the British Pound and Euro.

Other Income (Expense), Net

Net other expense was nominal for the three and nine months ended September 30, 2022 and October 1, 2021, respectively.

Income Tax Provision (Benefit)

Our effective tax rate for the three months ended September 30, 2022 was 16.0%, versus (0.6)% for the prior year period. Our effective tax rate of 16.0% for the three months ended September 30, 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 expenses and uncertain tax position accruals.

Our effective tax rate of (0.6)% for the three months ended October 1, 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, windfall tax benefits upon vesting of certain share-based compensation awards and a release of uncertain tax position reserves due to expiration of statutes of limitation, partially offset by an increase in our valuation allowance.

Our effective tax rate for the nine months ended September 30, 2022 was 13.8%, versus 2.0% for the prior year period. Our effective tax rate of 13.8% for the nine months ended September 30, 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 expenses and uncertain tax position accruals. For the nine months ended September 30, 2022, the windfall tax benefits upon vesting of certain stock-based compensation awards had a benefit of 0.2% on our effective tax rate.

Our effective tax rate of 2.0% for the nine months ended October 1, 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 and an increase in our valuation allowances. For the nine months ended October 1, 2021, the windfall tax benefits upon vesting of certain share-based compensation awards had a benefit of 14.5% on our effective tax rate.

The Inflation Reduction Act of 2022 (the "IRA") was passed into law on August 16, 2022. The provisions of the IRA will be effective beginning with fiscal year 2023, with certain exceptions. The IRA has several new provisions including a 15% corporate alternative minimum tax ("CAMT") for certain large corporations that have at least an average of \$1.0 billion of adjusted financial statement income over a consecutive three-tax-year period. The IRA also introduced a 1% excise tax imposed on certain stock

repurchases by publicly traded U.S. corporations made after December 31, 2022. Based on our initial evaluation, we do not believe the IRA will have a material impact on our income tax provision and cash taxes. We continue to monitor the changes in tax laws and regulations to evaluate their potential impact on our business.

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 and the Russia-Ukraine war, 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 September 30, 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 September 30, 2022, \$57.7 million of our \$84.6 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 \$137.9 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 of 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 Credit Agreement and exercised a portion of the uncommitted accordion option. The First Amendment increased the revolving credit facility commitment under the 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 Credit Agreement to exercise the accordion option. The Fourth Amendment increased the revolving credit facility commitment under the 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 September 30, 2022, we had \$75.7 million term loan and \$372.3 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 September 30, 2022, we had outstanding borrowings under the Credit Agreement denominated in Euro and U.S. Dollars of \$137.9 million and \$310.0 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 September 30, 2022:

	Requirement	Actual
Maximum consolidated leverage ratio ⁽¹⁾	3.50	2.33
Minimum consolidated fixed charge coverage ratio	1.50	8.89

⁽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. We completed the 2018 Repurchase Plan in the second quarter of 2022 and repurchased 80 thousand shares for an aggregate purchase price of \$9.5 million at an average price of \$118.97 per share. Since the inception of the 2018 Repurchase Plan, we have repurchased a cumulative total of 264 thousand shares at an average price of \$94.57 per share.

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 nine months ended September 30, 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 September 30, 2022, we had \$49.5 million available for share repurchases under the 2020 Repurchase Plan.

Cash Flows for the Nine Months Ended September 30, 2022 and October 1, 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):

	Nine Months Ended	
	September 30, 2022	October 1, 2021
Net cash provided by operating activities	\$ 50,167	\$ 65,912
Net cash used in investing activities	\$ (38,283)	\$ (302,140)
Net cash used in financing activities	\$ (36,669)	\$ 214,290
	September 30, 2022	
	September 30, 2022	December 31, 2021
Cash and cash equivalents	\$ 84,580	\$ 117,393
Unused and available funds under the revolving credit facility	\$ 322,713	\$ 348,421

Operating Cash Flows

Cash provided by operating activities was \$50.2 million for the nine months ended September 30, 2022, versus \$65.9 million for the prior year period. Cash provided by operating activities for the nine months ended September 30, 2022 decreased from the prior year period primarily due to a \$46.6 million increase in inventories driven by increased customer demand and higher critical raw material purchases, a \$34.4 million increase in accounts receivable primarily driven by increased revenue, 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 \$9.2 million for the year ending December 31, 2022.

Investing Cash Flows

Cash used in investing activities was \$38.3 million for the nine months ended September 30, 2022, primarily driven by the MPH acquisition. We paid cash consideration of \$22.4 million, net of cash acquired. We also paid capital expenditures of \$15.4 million and a contingent consideration payment of \$1.5 million related to our 2016 asset acquisition of video signal processing and management technologies during the nine months ended September 30, 2022.

Cash used in investing activities was \$302.1 million for the nine months ended October 1, 2021, primarily driven by the ATI and SEM acquisitions. In connection with these acquisitions, we paid cash consideration of \$285.2 million (net of cash acquired of \$14.6 million) during the nine months ended October 1, 2021. We also paid capital expenditures of \$14.8 million and a contingent consideration payment of \$2.2 million related to our 2016 asset acquisition of video signal processing and management technologies during the nine months ended October 1, 2021.

We expect to use an aggregate of approximately \$20 million to \$25 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 \$36.7 million for the nine months ended September 30, 2022, primarily due to \$46.3 million of contingent consideration payments related to prior year acquisitions, \$37.8 million of term loan and revolving credit facility repayments, \$10.0 million of repurchases of common stock, \$9.6 million of payroll tax payments upon vesting of share-based compensation awards, and \$2.5 million of debt issuance costs in connection with the Fifth Amendment, partially offset by \$69.9 million of borrowings under our revolving credit facility used to fund the contingent consideration paid for the ATI acquisition and cash consideration paid for the MPH acquisition.

Cash provided by financing activities was \$214.3 million for the nine months ended October 1, 2021, primarily due to \$280.0 million of borrowings under our revolving credit facility used to fund the cash considerations paid for the ATI and SEM acquisitions, partially offset by \$30.7 million of payroll tax payments upon vesting of share-based compensation awards, \$24.0 million of term loan

and revolver credit facility repayments, \$8.7 million payment for the purchase of a building under a finance lease agreement, 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 September 30, 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 September 30, 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 September 30, 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 September 30, 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 September 30, 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 Company did not repurchase any of its common shares during the three months ended September 30, 2002. For additional information regarding the Company's 2020 Repurchase Plan, see Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operation" above under the heading "Share Repurchase Plans."

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	10-Q	001-35083	10.1	08/09/2022	
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)

Name	Title	Date
<u>/s/ Matthijs Glastra</u> Matthijs Glastra	Chair of the Board and Chief Executive Officer	November 8, 2022
<u>/s/ Robert J. Buckley</u> Robert J. Buckley	Chief Financial Officer	November 8, 2022

**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.

November 8, 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.

November 8, 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 September 30, 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

November 8, 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 September 30, 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

November 8, 2022
