

**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 March 31, 2023

Or

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

NOVANTA INC.

(Exact name of registrant as specified in its charter)

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

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

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

01730
(Zip Code)

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

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

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

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

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

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

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

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

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

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

As of May 1, 2023, there were 35,805,586 of the Registrant's common shares, no par value, issued and outstanding.

NOVANTA INC.
TABLE OF CONTENTS

<u>Item No.</u>		<u>Page No.</u>
	<u>PART I — FINANCIAL INFORMATION</u>	1
ITEM 1.	<u>FINANCIAL STATEMENTS</u>	1
	<u>CONSOLIDATED BALANCE SHEETS (unaudited)</u>	1
	<u>CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)</u>	2
	<u>CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)</u>	3
	<u>CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (unaudited)</u>	4
	<u>CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)</u>	5
	<u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)</u>	6
ITEM 2.	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	25
ITEM 3.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	35
ITEM 4.	<u>CONTROLS AND PROCEDURES</u>	35
	<u>PART II — OTHER INFORMATION</u>	36
ITEM 1.	<u>LEGAL PROCEEDINGS</u>	36
ITEM 1A.	<u>RISK FACTORS</u>	36
ITEM 2.	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	36
ITEM 3.	<u>DEFAULTS UPON SENIOR SECURITIES</u>	36
ITEM 4.	<u>MINE SAFETY DISCLOSURES</u>	37
ITEM 5.	<u>OTHER INFORMATION</u>	37
ITEM 6.	<u>EXHIBITS</u>	38
	<u>SIGNATURES</u>	39

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2023	December 31, 2022
ASSETS		
Current assets		
Cash and cash equivalents	\$ 82,676	\$ 100,105
Accounts receivable, net of allowance of \$1,174 and \$995, respectively	141,472	137,697
Inventories	166,671	167,997
Prepaid income taxes and income taxes receivable	1,669	1,508
Prepaid expenses and other current assets	12,305	13,212
Total current assets	404,793	420,519
Property, plant and equipment, net	103,967	103,186
Operating lease assets	41,964	43,317
Deferred tax assets	18,201	15,113
Other assets	5,542	4,414
Intangible assets, net	168,828	175,766
Goodwill	482,520	478,897
Total assets	<u>\$ 1,225,815</u>	<u>\$ 1,241,212</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of long-term debt	\$ 4,904	\$ 4,800
Accounts payable	66,009	75,225
Income taxes payable	14,479	13,660
Current portion of operating lease liabilities	7,657	7,793
Accrued expenses and other current liabilities	49,304	63,044
Total current liabilities	142,353	164,522
Long-term debt	418,535	430,662
Operating lease liabilities	39,578	40,808
Deferred tax liabilities	16,977	17,194
Income taxes payable	4,516	4,355
Other liabilities	5,839	6,085
Total liabilities	627,798	663,626
Commitments and contingencies (Note 14)		
Stockholders' equity:		
Preferred shares, no par value; Authorized shares: 7,000; No shares issued and outstanding	—	—
Common shares, no par value; Authorized shares: unlimited; Issued and outstanding: 35,802 and 35,711, respectively	423,856	423,856
Additional paid-in capital	52,020	55,155
Retained earnings	148,849	130,584
Accumulated other comprehensive loss	(26,708)	(32,009)
Total stockholders' equity	598,017	577,586
Total liabilities and stockholders' equity	<u>\$ 1,225,815</u>	<u>\$ 1,241,212</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	
	March 31, 2023	April 1, 2022
Revenue	\$ 219,126	\$ 204,216
Cost of revenue	121,498	113,940
Gross profit	97,628	90,276
Operating expenses:		
Research and development and engineering	22,828	20,929
Selling, general and administrative	40,923	39,352
Amortization of purchased intangible assets	5,089	7,342
Restructuring, acquisition, and related costs	2,476	(1,630)
Total operating expenses	71,316	65,993
Operating income	26,312	24,283
Interest income (expense), net	(6,332)	(3,109)
Foreign exchange transaction gains (losses), net	(77)	69
Other income (expense), net	(166)	(545)
Income before income taxes	19,737	20,698
Income tax provision (benefit)	1,472	1,878
Consolidated net income	\$ 18,265	\$ 18,820
Earnings per common share (Note 4):		
Basic	\$ 0.51	\$ 0.53
Diluted	\$ 0.51	\$ 0.53
Weighted average common shares outstanding—basic	35,810	35,538
Weighted average common shares outstanding—diluted	35,999	35,781

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	
	March 31, 2023	April 1, 2022
Consolidated net income	\$ 18,265	\$ 18,820
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of tax ⁽¹⁾	5,230	(4,772)
Pension liability adjustments, net of tax ⁽²⁾	71	313
Total other comprehensive income (loss)	5,301	(4,459)
Total consolidated comprehensive income	<u>\$ 23,566</u>	<u>\$ 14,361</u>

⁽¹⁾ The tax effect on this component of comprehensive income (loss) was nominal for all periods presented.

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

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

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

	Common Shares		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	# of Shares	Amount				
Three Months Ended March 31, 2023						
Balance at December 31, 2022	35,711	\$ 423,856	\$ 55,155	\$ 130,584	\$ (32,009)	\$ 577,586
Consolidated net income	—	—	—	18,265	—	18,265
Common shares issued under stock plans	155	—	—	—	—	—
Common shares withheld for taxes on vested stock awards	(64)	—	(9,601)	—	—	(9,601)
Share-based compensation	—	—	6,466	—	—	6,466
Other comprehensive income (loss), net of tax	—	—	—	—	5,301	5,301
Balance at March 31, 2023	35,802	\$ 423,856	\$ 52,020	\$ 148,849	\$ (26,708)	\$ 598,017
Three Months Ended April 1, 2022						
Balance at December 31, 2021	35,601	\$ 423,856	\$ 53,768	\$ 56,533	\$ (12,866)	\$ 521,291
Consolidated net income	—	—	—	18,820	—	18,820
Common shares issued under stock plans	134	—	—	—	—	—
Common shares withheld for taxes on vested stock awards	(51)	—	(7,733)	—	—	(7,733)
Share-based compensation	—	—	6,774	—	—	6,774
Other comprehensive income (loss), net of tax	—	—	—	—	(4,459)	(4,459)
Balance at April 1, 2022	35,684	\$ 423,856	\$ 52,809	\$ 75,353	\$ (17,325)	\$ 534,693

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)

	Three Months Ended	
	March 31, 2023	April 1, 2022
Cash flows from operating activities:		
Consolidated net income	\$ 18,265	\$ 18,820
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	11,731	14,044
Provision for inventory excess and obsolescence	2,067	397
Share-based compensation	6,466	6,774
Deferred income taxes	(3,695)	(5,140)
Inventory acquisition fair value adjustments	—	624
Contingent consideration adjustments	—	(2,275)
Other	520	240
Changes in assets and liabilities which (used)/provided cash, excluding effects from business acquisitions:		
Accounts receivable	(2,920)	(8,949)
Inventories	52	(14,928)
Prepaid income taxes, income taxes receivable, prepaid expenses and other current assets	940	4,040
Accounts payable, income taxes payable, accrued expenses and other current liabilities	(22,295)	(38)
Other non-current assets and liabilities	(886)	(2,262)
Net cash provided by operating activities	<u>10,245</u>	<u>11,347</u>
Cash flows from investing activities:		
Cash paid for business acquisitions, net of working capital adjustments	—	820
Purchases of property, plant and equipment	(3,620)	(6,308)
Payment of contingent consideration related to acquisition of technology assets	—	(1,470)
Other investing activities	—	137
Net cash used in investing activities	<u>(3,620)</u>	<u>(6,821)</u>
Cash flows from financing activities:		
Repayments under term loan and revolving credit facilities	(15,309)	(11,640)
Payments of debt issuance costs	—	(2,133)
Payments of withholding taxes from share-based awards	(9,601)	(7,733)
Payments of contingent consideration related to acquisitions	—	(375)
Other financing activities	(156)	(148)
Net cash used in financing activities	<u>(25,066)</u>	<u>(22,029)</u>
Effect of exchange rates on cash and cash equivalents	<u>1,012</u>	<u>(1,085)</u>
Decrease in cash and cash equivalents	<u>(17,429)</u>	<u>(18,588)</u>
Cash and cash equivalents, beginning of the period	100,105	117,393
Cash and cash equivalents, end of the period	<u>\$ 82,676</u>	<u>\$ 98,805</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 6,137	\$ 2,737
Cash paid for income taxes	\$ 4,371	\$ 2,624
Income tax refunds received	\$ 182	\$ 128

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

NOVANTA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2023
(Unaudited)

1. Basis of Presentation

Novanta Inc. (“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 precision medicine and manufacturing, medical solutions, and robotics and automation 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, 2022. 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.

During the first quarter of 2023, the Company changed the names of its reportable segments from “Photonics” to “Precision Medicine and Manufacturing”, from “Vision” to “Medical Solutions”, and from “Precision Motion” to “Robotics and Automation”, respectively. The segment name changes did not result in any change to the compositions of the Company’s segments and therefore did not result in any change to historical results.

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.

Recent Accounting Pronouncements

None

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

NOVANTA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2023
(Unaudited)

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 three months ended March 31, 2023 and April 1, 2022.

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

Shipping & Handling Costs

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

Warranties

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

Practical Expedients and Exemptions

The Company expenses incremental direct costs of obtaining a contract when incurred because the expected amortization period is typically 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 March 31, 2023 and December 31, 2022, contract liabilities were \$7.2 million and \$8.4 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 three months ended March 31, 2023 is primarily due to \$4.1 million of revenue recognized during the period that was included in the contract liability balance as of December 31, 2022, partially offset by cash payments received in advance of satisfying performance obligations.

Disaggregated Revenue

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

NOVANTA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2023
(Unaudited)

3. Accumulated Other Comprehensive Loss

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

	Total Accumulated Other Comprehensive Loss	Cumulative Translation Adjustments	Pension Liability Adjustments
Balance at December 31, 2022	\$ (32,009)	\$ (24,427)	\$ (7,582)
Other comprehensive income (loss)	5,046	5,230	(184)
Amounts reclassified from accumulated other comprehensive loss	255	—	255
Balance at March 31, 2023	<u>\$ (26,708)</u>	<u>\$ (19,197)</u>	<u>\$ (7,511)</u>

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

4. Earnings per Common Share

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

For diluted earnings per common share, the denominator includes the dilutive effect of outstanding common share equivalents. The dilutive effects of outstanding common share equivalents, including outstanding service-based restricted stock units, stock options and performance-based restricted stock units, are determined using the treasury stock method. The dilutive effects of market-based contingently issuable shares 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 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	
	March 31, 2023	April 1, 2022
Numerators:		
Consolidated net income	\$ 18,265	\$ 18,820
Denominators:		
Weighted average common shares outstanding— basic	35,810	35,538
Dilutive potential common shares	189	243
Weighted average common shares outstanding— diluted	35,999	35,781
Antidilutive potential common shares excluded from above	113	93
Earnings per Common Share:		
Basic	\$ 0.51	\$ 0.53
Diluted	\$ 0.51	\$ 0.53

For the three months ended March 31, 2023, 151 thousand shares of performance based restricted stock units 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 March 31, 2023.

NOVANTA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2023
(Unaudited)

For the three months ended April 1, 2022, 128 thousand shares of performance based restricted stock units 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 April 1, 2022.

5. Fair Value Measurements

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

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

Current Assets and Liabilities

The Company’s cash equivalents are highly liquid investments with original maturities of three months or less, which represent an asset measured 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 equivalents, 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 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 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 and adjusted the fair value of the contingent consideration to €0.4 million (\$0.4 million). The installment payments have been 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 March 31, 2023, the Company did not make any adjustments to the fair value of the remaining contingent consideration during the three months ended March 31, 2023.

NOVANTA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2023
(Unaudited)

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 March 31, 2023 (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	\$ 269	\$ 269	\$ —	\$ —
Prepaid expenses and other current assets:				
Foreign currency forward contracts	140	—	140	—
	<u>\$ 409</u>	<u>\$ 269</u>	<u>\$ 140</u>	<u>\$ —</u>
Liabilities				
Accrued expenses and other current liabilities:				
Contingent considerations - Current	\$ 127	\$ —	\$ —	\$ 127
Foreign currency forward contracts	68	—	68	—
Other liabilities:				
Contingent considerations - Long-term	307	—	—	307
	<u>\$ 502</u>	<u>\$ —</u>	<u>\$ 68</u>	<u>\$ 434</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, 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	\$ 1,369	\$ 1,369	\$ —	\$ —
Prepaid expenses and other current assets:				
Foreign currency forward contracts	391	—	391	—
	<u>\$ 1,760</u>	<u>\$ 1,369</u>	<u>\$ 391</u>	<u>\$ —</u>
Liabilities				
Accrued expenses and other current liabilities:				
Contingent considerations - Current	\$ 124	\$ —	\$ —	\$ 124
Foreign currency forward contracts	412	—	412	—
Other liabilities:				
Contingent considerations - Long-term	301	—	—	301
	<u>\$ 837</u>	<u>\$ —</u>	<u>\$ 412</u>	<u>\$ 425</u>

Changes in the fair value of Level 3 contingent considerations during the three months ended March 31, 2023 were as follows (in thousands):

	Amount
Balance at December 31, 2022	\$ 425
Effect of foreign exchange rates	9
Balance at March 31, 2023	<u>\$ 434</u>

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

NOVANTA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2023
(Unaudited)

6. Foreign Currency Contracts

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

As of March 31, 2023, the aggregate notional amount and fair value of the Company's foreign currency forward contracts was \$122.5 million and a net gain of \$0.1 million, respectively. As of December 31, 2022, the aggregate notional amount and fair value of the Company's foreign currency forward contracts was \$117.1 million and a net loss of less than \$0.1 million, respectively.

The Company recognized an aggregate net gain of \$0.6 million and an aggregate net loss of \$0.1 million for the three months ended March 31, 2023 and April 1, 2022, respectively. These amounts were included in foreign exchange transaction gains (losses) in the consolidated statements of operations.

7. Goodwill and Intangible Assets

Goodwill

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

The following table summarizes changes in goodwill during the three months ended March 31, 2023 (in thousands):

Balance at beginning of the period	\$ 478,897
Effect of foreign exchange rate changes	3,623
Balance at end of the period	<u>\$ 482,520</u>

Goodwill by reportable segment as of March 31, 2023 was as follows (in thousands):

	Reportable Segment			Total
	Precision Medicine and Manufacturing	Medical Solutions	Robotics and Automation	
Goodwill	\$ 210,009	\$ 169,497	\$ 254,243	\$ 633,749
Accumulated impairment of goodwill	(102,461)	(31,722)	(17,046)	(151,229)
Total	<u>\$ 107,548</u>	<u>\$ 137,775</u>	<u>\$ 237,197</u>	<u>\$ 482,520</u>

Goodwill by reportable segment as of December 31, 2022 was as follows (in thousands):

	Reportable Segment			Total
	Precision Medicine and Manufacturing	Medical Solutions	Robotics and Automation	
Goodwill	\$ 208,387	\$ 167,891	\$ 253,848	\$ 630,126
Accumulated impairment of goodwill	(102,461)	(31,722)	(17,046)	(151,229)
Total	<u>\$ 105,926</u>	<u>\$ 136,169</u>	<u>\$ 236,802</u>	<u>\$ 478,897</u>

NOVANTA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2023
(Unaudited)

Intangible Assets

Intangible assets as of March 31, 2023 and December 31, 2022, respectively, are summarized as follows (in thousands):

	March 31, 2023			December 31, 2022		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable intangible assets:						
Patents and developed technologies	\$ 185,977	\$ (136,336)	\$ 49,641	\$ 184,589	\$ (132,350)	\$ 52,239
Customer relationships	223,854	(127,261)	96,593	222,173	(121,527)	100,646
Trademarks and trade names	23,479	(13,912)	9,567	23,311	(13,457)	9,854
Amortizable intangible assets	433,310	(277,509)	155,801	430,073	(267,334)	162,739
Non-amortizable intangible assets:						
Trade names	13,027	—	13,027	13,027	—	13,027
Totals	\$ 446,337	\$ (277,509)	\$ 168,828	\$ 443,100	\$ (267,334)	\$ 175,766

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	
	March 31, 2023	April 1, 2022
Amortization expense – cost of revenue	\$ 3,022	\$ 3,423
Amortization expense – operating expenses	5,089	7,342
Total amortization expense	\$ 8,111	\$ 10,765

Estimated amortization expense for each of the five succeeding years and thereafter as of March 31, 2023 was as follows (in thousands):

Year Ending December 31,	Cost of Revenue	Operating Expenses	Total
2023 (remainder of year)	\$ 9,137	\$ 15,366	\$ 24,503
2024	9,895	17,195	27,090
2025	8,379	14,547	22,926
2026	6,998	12,379	19,377
2027	4,239	9,983	14,222
Thereafter	10,993	36,690	47,683
Total	\$ 49,641	\$ 106,160	\$ 155,801

8. Supplementary Balance Sheet Information

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

Inventories

	March 31, 2023	December 31, 2022
Raw materials	\$ 114,586	\$ 118,292
Work-in-process	24,142	23,328
Finished goods	27,320	25,738
Demo and consigned inventory	623	639
Total inventories	\$ 166,671	\$ 167,997

NOVANTA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2023
(Unaudited)

Accrued Expenses and Other Current Liabilities

	March 31, 2023	December 31, 2022
Accrued compensation and benefits	\$ 22,072	\$ 35,501
Accrued warranty	5,284	5,127
Contract liabilities, current portion	6,935	8,128
Finance lease obligations	684	668
Accrued contingent considerations and earn-outs	127	124
Other	14,202	13,496
Total	<u>\$ 49,304</u>	<u>\$ 63,044</u>

Accrued Warranty

	Three Months Ended	
	March 31, 2023	April 1, 2022
Balance at beginning of the period	\$ 5,127	\$ 4,783
Provision charged to cost of revenue	682	609
Use of provision	(556)	(762)
Foreign currency exchange rate changes	31	(30)
Balance at end of the period	<u>\$ 5,284</u>	<u>\$ 4,600</u>

Other Long-Term Liabilities

	March 31, 2023	December 31, 2022
Finance lease obligations	\$ 4,476	\$ 4,652
Accrued contingent considerations and earn-outs	307	301
Other	1,056	1,132
Total	<u>\$ 5,839</u>	<u>\$ 6,085</u>

9. Debt

Outstanding debt consisted of the following (in thousands):

	March 31, 2023	December 31, 2022
Senior Credit Facilities – term loan	\$ 4,934	\$ 4,832
Less: unamortized debt issuance costs	(30)	(32)
Total current portion of long-term debt	<u>\$ 4,904</u>	<u>\$ 4,800</u>
Senior Credit Facilities – term loan	\$ 77,467	\$ 77,060
Senior Credit Facilities – revolving credit facility	345,590	358,413
Less: unamortized debt issuance costs	(4,522)	(4,811)
Total long-term debt	<u>\$ 418,535</u>	<u>\$ 430,662</u>
Total Senior Credit Facilities	<u>\$ 423,439</u>	<u>\$ 435,462</u>

NOVANTA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2023
(Unaudited)

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”). As amended, the Senior Credit Facilities mature in March 2027 and include an uncommitted accordion option pursuant to which the commitments under the revolving credit facility may be increased by an additional \$350.0 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 €1.1 million (\$1.2 million) towards its term loan and \$14.1 million towards its revolving credit facility during the three months ended March 31, 2023.

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 March 31, 2023.

Liens

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

Fair Value of Debt

As of March 31, 2023 and December 31, 2022, the outstanding balance of the Company’s debt approximated its fair value based on current rates available to the Company for debt of similar maturities. The fair value of the Company’s debt is classified as Level 2 under the fair value hierarchy.

10. Leases

Most leases held by the Company expire between 2023 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.

NOVANTA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2023
(Unaudited)

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

	Three Months Ended	
	March 31, 2023	April 1, 2022
Operating lease cost	\$ 2,638	\$ 2,744
Finance lease cost		
Amortization of right-of-use assets	150	150
Interest on lease liabilities	71	79
Variable lease cost	236	265
Total lease cost	<u>\$ 3,095</u>	<u>\$ 3,238</u>

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

	March 31, 2023	December 31, 2022
Operating leases		
Operating lease right-of-use assets	<u>\$ 41,964</u>	<u>\$ 43,317</u>
Current portion of operating lease liabilities	\$ 7,657	\$ 7,793
Operating lease liabilities	39,578	40,808
Total operating lease liabilities	<u>\$ 47,235</u>	<u>\$ 48,601</u>
Finance leases		
Property, plant and equipment, gross	\$ 9,582	\$ 9,582
Accumulated depreciation	(5,821)	(5,670)
Finance lease assets included in property, plant and equipment, net	<u>\$ 3,761</u>	<u>\$ 3,912</u>
Accrued expenses and other current liabilities	\$ 684	\$ 668
Other liabilities	4,476	4,652
Total finance lease liabilities	<u>\$ 5,160</u>	<u>\$ 5,320</u>
Weighted-average remaining lease term (in years):		
Operating leases	8.1	8.2
Finance leases	6.3	6.5
Weighted-average discount rate:		
Operating leases	4.72 %	4.64 %
Finance leases	5.54 %	5.54 %

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

	Three Months Ended	
	March 31, 2023	April 1, 2022
Cash paid for amounts included in lease liabilities:		
Operating cash flows from finance leases	\$ 71	\$ 79
Operating cash flows from operating leases	\$ 1,988	\$ 1,985
Financing cash flows from finance leases	\$ 156	\$ 148
Supplemental non-cash information:		
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 142	\$ 787

NOVANTA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2023
(Unaudited)

Future minimum lease payments under operating and finance leases expiring subsequent to March 31, 2023, 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
2023 (remainder of year)	\$ 6,954	\$ 710
2024	8,974	954
2025	8,413	954
2026	7,225	979
2027	6,366	1,003
Thereafter	20,537	1,505
Total minimum lease payments	58,469	6,105
Less: Interest	(11,234)	(945)
Present value of lease liabilities	\$ 47,235	\$ 5,160

11. Preferred and Common Shares and Share-Based Compensation

Preferred Shares

In May 2021, the Company's shareholders approved a special resolution to amend the Company's articles to authorize up to 7.0 million preferred shares for future issuance. The Company's Board of Directors is authorized to designate and issue one or more series of preferred shares, fix the rights, preferences and designation, as deemed necessary or advisable, relating to the preferred shares, provided that no shares of any series may be entitled to more than one vote per share. As of March 31, 2023, no preferred shares had been issued and outstanding.

Common Share Repurchases

In February 2020, the Company's Board of Directors approved a new share repurchase plan (the "2020 Repurchase Plan"), authorizing the repurchase of \$50.0 million worth of the Company's common shares. During the three months ended July 1, 2022, the Company repurchased 4 thousand shares under the 2020 Repurchase Plan for an aggregate purchase price of \$0.5 million and an average price of \$116.95 per share. During the three months ended March 31, 2023, the Company did not repurchase any shares. As of March 31, 2023, 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	
	March 31, 2023	April 1, 2022
Selling, general and administrative	\$ 5,531	\$ 5,201
Research and development and engineering	443	700
Cost of revenue	492	873
Restructuring, acquisition, and related costs	—	—
Total share-based compensation expense	\$ 6,466	\$ 6,774

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 \$0.9 million and \$1.0 million during the three months ended March 31, 2023 and April 1, 2022, 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

NOVANTA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2023
(Unaudited)

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. There were 41 thousand and 38 thousand DSUs outstanding as of March 31, 2023 and December 31, 2022, 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 three months ended March 31, 2023:

	Shares (In thousands)	Weighted Average Grant Date Fair Value
Unvested at December 31, 2022	238	\$ 128.26
Granted	81	\$ 155.12
Vested	(89)	\$ 121.47
Forfeited	(9)	\$ 132.87
Unvested at March 31, 2023	221	\$ 140.82
Expected to vest as of March 31, 2023	196	

The total fair value of RSUs and DSUs that vested during the three months ended March 31, 2023 was \$13.8 million based on the market price of the underlying shares on the date of vesting.

Performance Stock Units

The Company typically grants performance-based restricted stock unit awards (“PSUs”) that are based on the Company's financial metrics, market conditions, or a hybrid of financial metrics and market conditions. These performance stock unit awards generally cliff vest on the first day following the end of the specified performance period.

The number of common shares to be issued upon settlement following vesting of the Company's financial metrics attainment-based PSUs (“attainment-based PSUs”) is determined based on the Company’s financial metrics over the specified performance period against the 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 specified performance period. 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 vesting of the market condition-based PSUs (“market-based PSUs”) is determined based on the relative market performance of the Company’s common stock compared to the Russell 2000 Index over the specified 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 market-based PSUs, determined using the Monte-Carlo valuation model as of the grant date, on a straight-line basis from the grant date to the end of the specified performance period. Compensation expense on market-based PSUs will not be affected by the number of shares that will ultimately vest at the end of the specified performance period.

The number of common shares to be issued upon settlement following vesting of the PSU awards that are based on achievement of a hybrid of financial metrics and market conditions (“Hybrid PSUs”) is determined based on the Company's financial metrics achieved over the specified performance period against the targets established by the Company's Board of Directors at the time of grant with a market condition multiplier and will be in the range of zero to 260% of the target number of shares. The Company determines the fair value of the market condition multiplier using the Monte-Carlo valuation model as of the grant date. The Company recognizes compensation expense associated with the Hybrid PSUs ratably over the specified performance period based on the fair value of the PSUs as of the grant date and the number of shares expected to be earned. The probability assessment is

NOVANTA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2023
(Unaudited)

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 three months ended March 31, 2023:

	Shares (In thousands)	Weighted Average Grant Date Fair Value
Unvested at December 31, 2022	216	\$ 144.16
Granted	57	\$ 179.15
Performance adjustments ⁽¹⁾	20	\$ 122.24
Vested	(70)	\$ 116.56
Forfeited	(7)	\$ 167.06
Unvested at March 31, 2023	216	\$ 160.81
Expected to vest as of March 31, 2023	241	

⁽¹⁾ The amount shown represents performance adjustments related to the performance-based awards granted on February 20, 2020. These units vested at a blended payout of 142% during the three months ended March 31, 2023 based on the achievement of cumulative Non-GAAP EPS and applicable relative TSR performance conditions, respectively, over the performance period of fiscal years 2020 through 2022.

The unvested PSUs are shown at target payout levels in the table above. As of March 31, 2023, the maximum number of common shares that could be earned under these PSU grants was approximately 381 thousand shares.

The total fair value of PSUs that vested during the three months ended March 31, 2023 was \$9.9 million based on the market price of the underlying common shares on the date of vesting.

The grant-date fair value of the Hybrid PSUs granted during the three months ended March 31, 2023 was estimated using the Monte Carlo valuation method with the following assumptions:

	Three Months Ended March 31, 2023
Grant-date stock price	\$ 156.72
Expected volatility	35.89 %
Risk-free interest rate	4.44 %
Expected annual dividend yield	—
Fair value	\$ 181.45

Stock Options

In February 2023, the Company granted 48 thousand nonqualified 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 on the date of grant. The stock options vest ratably over three years on the anniversary of 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.

NOVANTA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2023
(Unaudited)

The table below summarizes the activities relating to stock options issued and outstanding under the Company's Amended and Restated 2010 Incentive Plan during the three months ended March 31, 2023:

	Shares (In thousands)	Weighted Average Exercise Price
Outstanding as of December 31, 2022	84	\$ 72.18
Granted	48	\$ 135.86
Exercised	—	\$ —
Forfeited or expired	—	\$ —
Outstanding as of March 31, 2023	132	\$ 102.86
Exercisable as of March 31, 2023	57	
Expected to vest as of March 31, 2023	75	

The aggregate Black-Scholes fair value of \$3.0 million for the stock options granted during the three months ended March 31, 2023 was estimated using the following assumptions as of the grant date:

	Three Months Ended March 31, 2023
Expected option term in years	4.5
Expected volatility	40.7 %
Risk-free interest rate	4.00 %
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. The risk-free interest rate was based on 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.

12. Income Taxes

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

The Company maintains a valuation allowance on balances of certain U.S. state net operating losses, credits 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 7.5% for the three months ended March 31, 2023 differs from the Canadian statutory tax rate of 29.0% primarily due to the mix of income earned in jurisdictions with varying tax rates, estimated deductions for Foreign Derived Intangible Income, U.K. patent box deductions, R&D tax credits and windfall tax benefits upon vesting of certain share-based compensation awards, partially offset by disallowed compensation and uncertain tax position accruals. For the three months ended March 31, 2023, the tax benefits upon vesting of certain share-based compensation awards had a benefit of 8.2% on the Company's effective tax rate.

NOVANTA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2023
(Unaudited)

The Company's effective tax rate of 9.1% for the three months ended April 1, 2022 differs from the Canadian statutory tax rate of 29.0% primarily due to the mix of income earned in jurisdictions with varying tax rates, estimated deductions for Foreign Derived Intangible Income, U.K. patent box deductions, other tax credits, and windfall tax benefits upon vesting of certain share-based compensation awards, partially offset by disallowed compensation and uncertain tax position accruals. For the three months ended April 1, 2022, the windfall tax benefits upon vesting of certain share-based compensation awards had a benefit of 3% on the Company's effective tax rate.

13. Restructuring, Acquisition, and Related Costs

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

	Three Months Ended	
	March 31, 2023	April 1, 2022
2022 restructuring	\$ 2,197	\$ —
2020 restructuring	274	622
Total restructuring charges	2,471	622
Acquisition and related charges	5	(2,252)
Total restructuring, acquisition, and related costs	\$ 2,476	\$ (1,630)

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 March 31, 2023, the Company recorded \$2.2 million in severance and other charges in connection with the 2022 restructuring program. As of March 31, 2023, the Company had incurred cumulative costs related to this restructuring plan totaling \$3.6 million. The Company anticipates substantially completing the 2022 restructuring program by the end of 2023 and expects to incur additional restructuring charges of \$3.0 million to \$3.5 million related to the 2022 restructuring program.

The following table summarizes restructuring costs associated with the 2022 restructuring program by reportable segment (in thousands):

	Three Months Ended	
	March 31, 2023	April 1, 2022
Precision Medicine and Manufacturing	\$ 723	\$ —
Medical Solutions	5	—
Robotics and Automation	1,270	—
Unallocated Corporate and Shared Services	199	—
Total	\$ 2,197	\$ —

2020 Restructuring

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 months ended March 31, 2023, the Company recorded \$0.3 million in severance and other costs in connection with the 2020 restructuring program. As of March 31, 2023, the Company had incurred cumulative costs related to this restructuring plan totaling \$14.2 million. The 2020 restructuring program is expected to be completed in 2023 and to incur additional restructuring charges of \$0.5 million to \$1.0 million.

NOVANTA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2023
(Unaudited)

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

	Three Months Ended	
	March 31, 2023	April 1, 2022
Precision Medicine and Manufacturing	\$ 206	\$ 693
Medical Solutions	68	41
Robotics and Automation	—	(112)
Total	<u>\$ 274</u>	<u>\$ 622</u>

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 Related	Other
Balance at December 31, 2022	\$ 2,410	\$ 1,902	\$ 452	\$ 56
Restructuring charges	2,471	2,041	106	324
Cash payments	(1,320)	(945)	(98)	(277)
Non-cash charges and other adjustments	34	23	11	—
Balance at March 31, 2023	<u>\$ 3,595</u>	<u>\$ 3,021</u>	<u>\$ 471</u>	<u>\$ 103</u>

Acquisition and Related Charges

Acquisition costs in connection with business combinations, including finders' fees, legal, valuation, and other professional or consulting fees, totaled less than \$0.1 million for both the three months ended March 31, 2023 and the three months ended April 1, 2022. During the three months ended April 1, 2022, the Company recognized \$2.3 million reduction in the fair value of certain prior-year acquisition contingent considerations. The majority of acquisition and related costs for the three months ended March 31, 2023 were included in the Company's Unallocated Corporate and Shared Services reportable segment. The majority of acquisition and related costs for the three months ended April 1, 2022 were included in the Company's Precision Medicine and Manufacturing and Robotics and Automation reportable segments.

14. Commitments and Contingencies

Purchase Commitments

There have been no material changes to the Company's purchase commitments since December 31, 2022.

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 considered 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.

NOVANTA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2023
(Unaudited)

Guarantees and Indemnifications

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

15. Segment Information

Reportable Segments

The Company's Chief Operating Decision Maker ("CODM") utilizes financial information to make decisions about allocating resources and assessing performance for the entire Company. The Company evaluates the performance of and allocates resources to its segments based on revenue, gross profit and operating profit. The Company's reportable segments have been identified based on commonality and adjacency of technologies, applications and customers amongst the Company's individual product lines. The Company determined that disclosing revenue by specific product is 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: Precision Medicine and Manufacturing, Medical Solutions, and Robotics and Automation. The reportable segments and their principal activities are described below.

Precision Medicine and Manufacturing

The Precision Medicine and Manufacturing 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. 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 worldwide. The segment sells these products both directly, utilizing a highly technical sales force, and indirectly, through resellers and distributors.

Medical Solutions

The Medical Solutions 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 worldwide. The segment sells these products both directly, utilizing a highly technical sales force, and indirectly, through resellers and distributors.

Robotics and Automation

The Robotics and Automation 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

NOVANTA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2023
(Unaudited)

bearings, and air bearing spindles. The vast majority of the segment's product offerings are sold to OEM customers worldwide. The segment sells these products both directly, utilizing a highly technical sales force, and indirectly, through resellers and distributors.

Reportable Segment Financial Information

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

	Three Months Ended	
	March 31, 2023	April 1, 2022
Revenue		
Precision Medicine and Manufacturing	\$ 69,528	\$ 62,782
Medical Solutions	77,640	62,050
Robotics and Automation	71,958	79,384
Total	<u>\$ 219,126</u>	<u>\$ 204,216</u>
	Three Months Ended	
	March 31, 2023	April 1, 2022
Gross Profit		
Precision Medicine and Manufacturing	\$ 34,333	\$ 28,387
Medical Solutions	31,886	25,230
Robotics and Automation	32,815	38,150
Unallocated Corporate and Shared Services	(1,406)	(1,491)
Total	<u>\$ 97,628</u>	<u>\$ 90,276</u>
	Three Months Ended	
	March 31, 2023	April 1, 2022
Gross Profit Margin		
Precision Medicine and Manufacturing	49.4 %	45.2 %
Medical Solutions	41.1 %	40.7 %
Robotics and Automation	45.6 %	48.1 %
Total	44.6 %	44.2 %
	Three Months Ended	
	March 31, 2023	April 1, 2022
Operating Income (Loss)		
Precision Medicine and Manufacturing	\$ 16,684	\$ 13,435
Medical Solutions	9,841	5,042
Robotics and Automation	12,000	18,338
Unallocated Corporate and Shared Services	(12,213)	(12,532)
Total	<u>\$ 26,312</u>	<u>\$ 24,283</u>
	Three Months Ended	
	March 31, 2023	April 1, 2022
Depreciation and Amortization Expenses		
Precision Medicine and Manufacturing	\$ 2,596	\$ 2,777
Medical Solutions	3,973	4,427
Robotics and Automation	4,845	6,737
Unallocated Corporate and Shared Services	317	103
Total	<u>\$ 11,731</u>	<u>\$ 14,044</u>

NOVANTA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2023
(Unaudited)

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	
	March 31, 2023	April 1, 2022
United States	\$ 103,842	\$ 82,715
Germany	34,862	31,778
Rest of Europe	29,365	33,373
China	17,798	26,799
Rest of Asia-Pacific	28,111	22,840
Other	5,148	6,711
Total	\$ 219,126	\$ 204,216

The majority of revenue from Precision Medicine and Manufacturing, Medical Solutions and Robotics and Automation 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	
	March 31, 2023	April 1, 2022
Medical	54 %	47 %
Advanced Industrial	46 %	53 %
Total	100 %	100 %

The majority of revenue from the Precision Medicine and Manufacturing and Robotics and Automation segments is generated from sales to customers in the advanced industrial market. The majority of revenue from the Medical Solutions 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, our ability to manage or mitigate the impact of global supply chain disruptions, inflationary pressures and other macroeconomic conditions; 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 disruptions and constraints and inflationary pressures; 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 and integration and anticipated benefits from acquisitions and dispositions; anticipated economic benefits and expected costs of restructuring programs; ability to repay our indebtedness; our intentions regarding the use of cash; expectations regarding legal and regulatory requirements, including 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 epidemics or pandemics, such as 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; our reliance on original equipment manufacturer customers; 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; 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, 2022 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. (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 precision medicine and manufacturing, medical solutions, and robotics and automation 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.

During the first quarter of 2023, we changed the names of our reportable segments from “Photonics” to “Precision Medicine and Manufacturing”, from “Vision” to “Medical Solutions”, and from “Precision Motion” to “Robotics and Automation”, respectively. The segment name changes did not result in any change to the compositions of our segments and therefore did not result in any change to historical results.

Reportable Segments

We operate in three reportable segments: Precision Medicine and Manufacturing, Medical Solutions, and Robotics and Automation. The reportable segments and their principal activities are summarized below.

Precision Medicine and Manufacturing

Our Precision Medicine and Manufacturing 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.

Medical Solutions

Our Medical Solutions 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.

Robotics and Automation

Our Robotics and Automation 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 three months ended March 31, 2023, the medical market accounted for approximately 54% 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 three months ended March 31, 2023, the advanced industrial market accounted for approximately 46% 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 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 functionality 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, diverse, and motivated employees.

Significant Events and Updates

Business Environment

Global Supply Chain Disruptions

Over the past three years, we 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 could further challenge our ability to manufacture our products, adversely affecting our operations and customer relationships. To mitigate the risk of supply chain interruptions, we are identifying alternative suppliers and distributors, sourcing raw materials from different supplier and distributor locations, modifying our product designs to allow for alternative components to be used without compromising quality and performance, in-sourcing production of parts where feasible, and taking other actions to ensure a sustainable supply of raw materials. 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 for obtaining raw materials from suppliers. Our supply chain disruptions and customer orders to secure supply caused

significantly elevated customer order backlog levels in the last two years. As of March 31, 2023, our backlog was almost double our average pre-COVID pandemic backlog levels due to longer customer lead times. We anticipate that our customers will gradually shorten their order lead times as supply chain disruptions ease over time in the near future.

Inflationary Pressures

The COVID-19 pandemic and the global supply chain disruptions have caused inflationary pressures on the market prices for raw materials and components as well as increases in the costs of labor. We continue to experience higher than normal inflation of raw materials and components prices as well as labor costs. We have generally been able to offset increases in these costs through various productivity cost reduction initiatives, as well as increasing 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. Additionally, the inflationary pressures have given rise to significant increases in interest rates as various governments used monetary policy to reduce inflation. As a result, our weighted average interest rate increased from approximately 2.5% as of April 1, 2022 to approximately 5.6% as of March 31, 2023.

Russia Ukraine Conflict

In February 2022, Russian forces invaded Ukraine. In response, the U.S., the European Union (“EU”), 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 U.S., the EU, and several other countries. Our sales to Russia have not been material. We also do not have any assets, employees or third-party contractors in Russia or Ukraine. The duration of the conflict and further sanctions could have further impact on the global economy and inflation. Due to the uncertainty around the duration of the conflict, these longer-term factors are unknown to our business.

Results of Operations for the Three Months Ended March 31, 2023 Compared with the Three Months Ended April 1, 2022

Overview of Financial Results

Total revenue of \$219.1 million for the three months ended March 31, 2023 increased \$14.9 million, or 7.3%, from the prior year period primarily due to increased demand in the advanced industrial and medical markets and revenue from a prior year acquisition. The effect of our prior year acquisition resulted in an increase in revenue of \$3.5 million, or 1.7%. In addition, foreign currency exchange rates adversely impacted our revenue by \$5.8 million, or 2.8%, for the three months ended March 31, 2023.

Operating income of \$26.3 million for the three months ended March 31, 2023 increased \$2.0 million, or 8.4%, from the prior year period. This increase was attributable to an increase in gross profit of \$7.4 million primarily attributable to higher revenue, an increase in gross profit margin, and a decrease in amortization expense of \$2.3 million, partially offset by an increase in restructuring, acquisition, and related charges of \$4.1 million, an increase in research and development and engineering expenses of \$1.9 million, and an increase in selling, general and administrative expenses of \$1.6 million.

Basic earnings per common share (“Basic EPS”) of \$0.51 for the three months ended March 31, 2023 decreased \$0.02 from the prior year period. Diluted earnings per common share (“Diluted EPS”) of \$0.51 for the three months ended March 31, 2023 decreased \$0.02 from the prior year period. The decreases were primarily attributable to an increase in interest expense, partially offset by an increase in operating income.

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
	March 31, 2023	April 1, 2022		
Precision Medicine and Manufacturing	\$ 69,528	\$ 62,782	\$ 6,746	10.7 %
Medical Solutions	77,640	62,050	15,590	25.1 %
Robotics and Automation	71,958	79,384	(7,426)	(9.4)%
Total	<u>\$ 219,126</u>	<u>\$ 204,216</u>	<u>\$ 14,910</u>	7.3 %

Precision Medicine and Manufacturing

Precision Medicine and Manufacturing segment revenue for the three months ended March 31, 2023 increased by \$6.7 million, or 10.7%, versus the prior year period, primarily due to increased demand in advanced industrial and medical markets.

Medical Solutions

Medical Solutions segment revenue for the three months ended March 31, 2023 increased by \$15.6 million, or 25.1%, versus the prior year period, primarily due to increases in sales from our minimally invasive surgery products and detection and analysis products, and \$3.5 million of revenue contributions from our 2022 acquisition.

Robotics and Automation

Robotics and Automation segment revenue for the three months ended March 31, 2023 decreased by \$7.4 million, or 9.4%, versus the prior year period, primarily due to a decrease in demand in the microelectronics market.

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	
	March 31, 2023	April 1, 2022
Gross profit:		
Precision Medicine and Manufacturing	\$ 34,333	\$ 28,387
Medical Solutions	31,886	25,230
Robotics and Automation	32,815	38,150
Unallocated Corporate and Shared Services	(1,406)	(1,491)
Total	<u>\$ 97,628</u>	<u>\$ 90,276</u>
Gross profit margin:		
Precision Medicine and Manufacturing	49.4 %	45.2 %
Medical Solutions	41.1 %	40.7 %
Robotics and Automation	45.6 %	48.1 %
Total	44.6 %	44.2 %

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.

Precision Medicine and Manufacturing

Precision Medicine and Manufacturing segment gross profit for the three months ended March 31, 2023 increased \$5.9 million, or 20.9%, versus the prior year period, primarily due to an increase in both revenue and gross profit margin. Precision Medicine and Manufacturing segment gross profit margin was 49.4% for the three months ended March 31, 2023, versus a gross profit margin of 45.2% for the prior year period. The increase in gross profit margin was primarily attributable to improved factory productivity and favorable product mix.

Medical Solutions

Medical Solutions segment gross profit for the three months ended March 31, 2023 increased \$6.7 million, or 26.4%, versus the prior year period, primarily due to an increase in both revenue and gross profit margin. Medical Solutions segment gross profit margin was 41.1% for the three months ended March 31, 2023, versus a gross profit margin of 40.7% for the prior year period.

Robotics and Automation

Robotics and Automation segment gross profit for the three months ended March 31, 2023 decreased \$5.3 million, or 14.0%, versus the prior year period, primarily due to a decrease in both revenue and gross profit margin. Robotics and Automation segment gross profit margin was 45.6% for the three months ended March 31, 2023, versus a gross profit margin of 48.1% for the prior year

period. The decrease in gross profit margin was primarily attributable to inefficient factory utilization due to a decrease in demand in the microelectronics market.

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 March 31, 2023 decreased by \$0.1 million versus the prior year period.

Operating Expenses

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

	Three Months Ended	
	March 31, 2023	April 1, 2022
Research and development and engineering	\$ 22,828	\$ 20,929
Selling, general and administrative	40,923	39,352
Amortization of purchased intangible assets	5,089	7,342
Restructuring, acquisition, and related costs	2,476	(1,630)
Total	\$ 71,316	\$ 65,993

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 \$22.8 million, or 10.4% of revenue, during the three months ended March 31, 2023, versus \$20.9 million, or 10.2% of revenue, during the prior year period. R&D expenses increased in terms of total dollars and as a percentage of revenue, primarily due to higher compensation related expenses as a result of higher headcount.

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 \$40.9 million, or 18.7% of revenue, during the three months ended March 31, 2023, versus \$39.4 million, or 19.3% of revenue, during the prior year period. SG&A expenses increased in terms of total dollars primarily due to increases in compensation related expenses 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 \$5.1 million, or 2.3% of revenue, during the three months ended March 31, 2023, versus \$7.3 million, or 3.6% of revenue, during the prior year period. The decrease, in terms of total dollars and as a percentage of revenue, was primarily due to certain intangibles being fully amortized in 2022.

Restructuring, Acquisition, and Related Costs

We recorded restructuring, acquisition, and related costs of \$2.5 million during the three months ended March 31, 2023, versus \$(1.6) million during the prior year period. During the three months ended April 1, 2022, the Company recognized \$2.3 million reduction in the fair value of certain prior-year acquisition contingent consideration. The restructuring costs during the three months ended March 31, 2023 increased \$1.8 million primarily due to increased expenses related to the 2022 restructuring plan.

Operating Income (Loss) by Segment

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

	Three Months Ended	
	March 31, 2023	April 1, 2022
Operating Income (Loss)		
Precision Medicine and Manufacturing	\$ 16,684	\$ 13,435
Medical Solutions	9,841	5,042
Robotics and Automation	12,000	18,338
Unallocated Corporate and Shared Services	(12,213)	(12,532)
Total	<u>\$ 26,312</u>	<u>\$ 24,283</u>

Precision Medicine and Manufacturing

Precision Medicine and Manufacturing segment operating income was \$16.7 million, or 24.0% of revenue, during the three months ended March 31, 2023, versus \$13.4 million, or 21.4% of revenue, during the prior year period. The increase in operating income was primarily due to an increase in gross profit of \$5.9 million, partially offset by an increase in restructuring, acquisition, and related costs of \$2.0 million, and an increase in R&D expenses of \$0.9 million.

Medical Solutions

Medical Solutions segment operating income was \$9.8 million, or 12.7% of revenue, during the three months ended March 31, 2023, versus \$5.0 million, or 8.1% of revenue, during the prior year period. The increase in operating income was primarily due to an increase in gross profit of \$6.7 million, partially offset by an increase in R&D expenses of \$1.3 million and an increase in SG&A expenses of \$0.9 million.

Robotics and Automation

Robotics and Automation segment operating income was \$12.0 million, or 16.7% of revenue, during the three months ended March 31, 2023, versus \$18.3 million, or 23.1% of revenue, during the prior year period. The decrease in operating income was primarily due to a decrease in gross profit of \$5.3 million, an increase in restructuring, acquisition, and related costs of \$1.9 million, and an increase in SG&A expenses of \$1.0 million, partially offset by a decrease in amortization expense of \$1.8 million due to certain intangible assets being fully amortized in 2022.

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 March 31, 2023 decreased by \$0.3 million versus the prior year period.

Other Income and Expense Items

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

	Three Months Ended	
	March 31, 2023	April 1, 2022
Interest income (expense), net	\$ (6,332)	\$ (3,109)
Foreign exchange transaction gains (losses), net	\$ (77)	\$ 69
Other income (expense), net	\$ (166)	\$ (545)

Interest Income (Expense), Net

Net interest expense was \$6.3 million for the three months ended March 31, 2023, versus \$3.1 million in the prior year period. The increase in net interest expense was primarily due to an increase in the weighted average interest rate on our senior credit facilities. The weighted average interest rate on our senior credit facilities was 5.55% during the three months ended March 31, 2023, versus 2.49% during the prior year period.

Foreign Exchange Transaction Gains (Losses), Net

Foreign exchange transaction gains (losses) were nominal for both the three months ended March 31, 2023 and the three months ended April 1, 2022.

Other Income (Expense), Net

Net other expense was nominal for both the three months ended March 31, 2023 and the three months ended April 1, 2022.

Income Tax Provision (Benefit)

Our effective tax rate for the three months ended March 31, 2023 was 7.5%, versus 9.1% for the prior year period. Our effective tax rate of 7.5% for the three months ended March 31, 2023 differs from the Canadian statutory tax rate of 29.0% primarily due to the mix of income earned in jurisdictions with varying tax rates, estimated deductions for Foreign Derived Intangible Income, U.K. patent box deductions, R&D tax credits and windfall tax benefits upon vesting of certain share-based compensation awards, partially offset by disallowed compensation and uncertain tax position accruals. For the three months ended March 31, 2023, the windfall tax benefits upon vesting of certain stock-based compensation awards had a benefit of 8.2% on our effective tax rate.

Our effective tax rate of 9.1% for the three months ended April 1, 2022 differs from the Canadian statutory tax rate of 29.0% primarily due to the mix of income earned in jurisdictions with varying tax rates, estimated deductions for Foreign Derived Intangible Income, U.K. patent box deductions, other tax credits and windfall tax benefits upon vesting of certain share-based compensation awards, partially offset by disallowed compensation and uncertain tax position accruals. For the three months ended April 1, 2022, the windfall tax benefits upon vesting of certain stock-based compensation awards had a benefit of 3% on our effective tax rate.

On December 12, 2022, the EU member states agreed to implement the Organization for Economic Co-operation and Development's ("OECD") Pillar Two Model Rules to be effective as of January 2024. These rules will impose a global corporate minimum income tax rate of 15%. Other countries are also actively considering changes to their tax laws to adopt certain parts of the OECD's proposals. The OECD continues to release additional guidance on these rules. The Company is analyzing the potential impact and will continue to monitor the related developments.

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 global pandemics and geo-political conflicts, monetary policy changes in the U.S. and other countries and their impact on the global financial markets, 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, availability of borrowings under our revolving credit facility, and other 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, 2022.

Our cash requirements primarily consist of principal and interest payments associated with our Senior Credit Facilities (as defined below), operating and finance leases, purchase commitments, and pension obligations. 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, 2022. Through March 31, 2023, we have not entered into any other material new or modified contractual obligations since December 31, 2022.

Our ability to make payments on our indebtedness and to fund our operations may be dependent upon the operating income and the distribution of funds from our subsidiaries. However, as 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 our subsidiaries will be permitted to provide us with sufficient dividends, distributions or loans when necessary.

As of March 31, 2023, \$56.0 million of our \$82.7 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. Approximately \$143.0 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.

Senior Credit Facilities

In December 2019, we entered into the Third Amended and Restated Credit Agreement, originally 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 had an original maturity date of 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.

On March 27, 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 March 31, 2023, we had \$82.4 million term loan and \$345.6 million revolver borrowings outstanding under our Senior Credit Facilities. The borrowings outstanding under the Senior Credit Facilities bear interest at rates based on (a) the Base Rate, as defined in the Credit Agreement, plus a margin ranging between 0.00% and 0.75% per annum, determined by reference to our consolidated leverage ratio, or (b) the Term SOFR Loans, Alternative Currency Loans, and Letters of Credit 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 March 31, 2023, we had outstanding borrowings under the Credit Agreement denominated in Euro and U.S. Dollars of \$143.0 million and \$285.0 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 March 31, 2023:

	Requirement	Actual
Maximum consolidated leverage ratio ⁽¹⁾	3.50	2.14
Minimum consolidated fixed charge coverage ratio	1.50	6.74

⁽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 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. The Company did not repurchase any shares during the three months ended March 31, 2023. As of March 31, 2023, we had \$49.5 million available for share repurchases under the 2020 Repurchase Plan.

Cash Flows for the Three Months Ended March 31, 2023 and April 1, 2022

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):

	Three Months Ended	
	March 31, 2023	April 1, 2022
Net cash provided by operating activities	\$ 10,245	\$ 11,347
Net cash used in investing activities	\$ (3,620)	\$ (6,821)
Net cash used in financing activities	\$ (25,066)	\$ (22,029)

	March 31, 2023	December 31, 2022
Cash and cash equivalents	\$ 82,676	\$ 100,105
Unused and available funds under the revolving credit facility	\$ 349,410	\$ 336,587

Operating Cash Flows

Cash provided by operating activities was \$10.2 million for the three months ended March 31, 2023, versus \$11.3 million for the prior year period. Cash provided by operating activities for the three months ended March 31, 2023 decreased from the prior year period primarily due to higher incentive compensation payments, partially offset by better net working capital performance versus the prior year period.

Investing Cash Flows

Cash used in investing activities was \$3.6 million for the three months ended March 31, 2023, all related to capital expenditures.

Cash used in investing activities was \$6.8 million for the three months ended April 1, 2022, primarily driven by capital expenditures of \$6.3 million and a contingent consideration payment of \$1.5 million related to our 2016 asset acquisition of video signal processing and management technologies.

We expect to use an aggregate of approximately \$25 million to \$30 million in 2023 for capital expenditures related to investments in new property, plant and equipment for our existing businesses, which includes a significant one-time buildout project in the U.K. for our Solid State and Ultrafast Lasers products.

Financing Cash Flows

Cash used in financing activities was \$25.1 million for the three months ended March 31, 2023, primarily due to \$15.3 million of term loan and revolving credit facility repayments and \$9.6 million of payroll tax payments upon vesting of share-based compensation awards.

Cash used in financing activities was \$22.0 million for the three months ended April 1, 2022, primarily due to \$11.6 million of term loan and revolving credit facility repayments, \$7.7 million of payroll tax payments upon vesting of share-based compensation awards, and \$2.1 million of debt issuance costs in connection with the Fifth Amendment.

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, 2022. There have been no material changes to our critical accounting policies and estimates through March 31, 2023 from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

Recent Accounting Pronouncements

None.

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 March 31, 2023, 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, 2022.

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 March 31, 2023, 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 March 31, 2023.

Changes in Internal Control Over Financial Reporting

There has been no change to our internal control over financial reporting during the fiscal quarter ended March 31, 2023 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, 2022. The risks described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial position, or future results of operations. The risk factors set forth below update, and should be read together with, the risk factors described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

Our results of operations could be adversely affected by economic and political conditions and the effects of these conditions on our customers' businesses, capital expenditures and levels of business activities.

A large portion of our product sales are dependent on our customers' need for increased capacity, productivity and cost saving initiatives, improved product quality and performance, and new investments. Weaknesses in our end markets could negatively impact our revenue and gross margin and consequently have a material adverse effect on our business, financial condition and results of operations. A severe and/or prolonged overall economic downturn or a negative or uncertain political climate could lead to weaknesses in our end markets and adversely affect our customers' financial condition and the timing or levels of our customers' capital expenditures or business activities. We have experienced significant cyclical end market fluctuations in the past. For example, diminished growth expectations, economic and political uncertainty in regions across the globe and effects of the COVID-19 pandemic adversely impacted our customers' financial condition and ability to maintain product order levels and reduced the demand for our products in 2020. In addition, certain sub-segments of the advanced industrial market that we serve, including the microelectronics and industrial capital equipment sectors, are cyclical and have historically experienced periods of oversupply, resulting in downturns in demand for capital equipment in which many of our products are used. It is difficult to predict the timing, length and severity of these downturns and their impact on our business. Further, our order levels or results of operations for a given period may not be indicative of order levels or results of operations for subsequent periods. For the foreseeable future, our operations will continue to depend upon industries that are subject to market cycles which, in turn, could adversely affect the market demand for our products.

We have also faced increases in inflationary conditions in materials and components as well as labor costs, and we expect these inflationary conditions to continue in 2023. These inflationary conditions have caused us to increase prices; however, such price increases may not be accepted by our customers or may not adequately offset the increases in our costs, thereby negatively affecting our results of operations. Changes in global economic conditions, including inflationary conditions, could also shift market demand to products or services for which we do not have competitive advantages. This could negatively affect the amount of business that we are able to obtain. In addition, if we are unable to successfully anticipate changes in economic and political conditions, we may be unable to effectively plan for and respond to those changes, and our business could be negatively affected.

Adverse developments that affect financial institutions, transactional counterparties, or other third parties, or concerns or rumors about these events, have in the past and may in the future lead to market-wide liquidity problems. Uncertainty may remain over liquidity concerns in the broader financial services industry, and there may be unpredictable impacts to our business and our industry.

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

None

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 May 26, 2005	10K	001-35083	3.4	3/1/2023	
3.5	Articles of Amendment of the Registrant, dated December 29, 2010	8-K	000-25705	3.1	12/29/2010	
3.6	Articles of Amendment of the Registrant, dated May 11, 2016	8-K	001-35083	10.1	05/12/2016	
3.7	Articles of Amendment of the Registrant, dated April 29, 2022	10-Q	001-35083	3.6	05/10/2022	
10.1	Form of Grant Notice and Award Agreement for Performance Stock Unit Awards with rTSR Modifier					*
31.1	Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					*
31.2	Chief Financial Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					*
32.1	Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					**
32.2	Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					**
101.INS	Inline eXtensible Business Reporting Language (XBRL) Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.					
101.SCH	Inline XBRL Taxonomy Extension Schema Document					*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					*
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)					*

* Filed herewith

** Furnished herewith

SIGNATURES

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

Novanta Inc. (Registrant)

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Matthijs Glastra</u>	Chair of the Board of Directors and Chief Executive Officer	May 9, 2023
Matthijs Glastra		
<u>/s/ Robert J. Buckley</u>	Chief Financial Officer	May 9, 2023
Robert J. Buckley		

NOVANTA INC.
2010 INCENTIVE AWARD PLAN

PERFORMANCE STOCK UNIT AWARD GRANT NOTICE

Novanta Inc., a company organized under the laws of the Province of New Brunswick, Canada (the “*Company*”), pursuant to its 2010 Incentive Award Plan, as amended from time to time (the “*Plan*”), hereby grants to the holder listed below (“*Participant*”) an award of performance stock units (the “*Performance Stock Units*”). Each Performance Stock Unit represents the right to receive a number of shares of Common Stock (as defined in the Plan) equal to the Settlement Amount (as described below) upon the achievement of certain performance goals. This award of Performance Stock Units is subject to all of the terms and conditions set forth herein and in the Performance Stock Unit Award Agreement attached hereto as Exhibit A, and as applicable, the Additional Terms for Participants Providing Services Outside the United States attached hereto as Exhibit B (the “*Performance Stock Unit Award Agreement*”) and the Plan, each of which is incorporated herein by reference.

Participant:	<u>#ParticipantName#</u>
Grant Date:	<u>#GrantDate#</u>
Number of Performance Stock Units:	<u>#QuantityGranted#</u>
Type of Performance Stock Units:	[●]
Performance Years:	Fiscal years ending December 31, [●]
Performance Goals:	Cumulative Adjusted Gross Revenue Performance Goals • Threshold Cumulative Adjusted Gross Revenue: [●] • Target Cumulative Adjusted Gross Revenue: [●] • Maximum Cumulative Adjusted Gross Revenue: [●] • Threshold Cumulative Adjusted EBITDA: [●] • Target Cumulative Adjusted EBITDA: [●] • Maximum Cumulative Adjusted EBITDA: [●] Cumulative Adjusted EBITDA Performance Goals rTSR Modifier Goals • Modifier of [●]x if rTSR is less than the [●]th Percentile • Modifier of [●]x if rTSR equals the [●]th Percentile • Modifier of [●]x if rTSR equals the [●]th Percentile • Modifier of [●]x if rTSR is equal to or greater than the [●]th Percentile

- If rTSR ranking is above the [●]th Percentile but below the [●]th Percentile, rTSR Modifier shall be determined by linear interpolation between the [●]th Percentile and the [●]th Percentile and between the [●]th Percentile and the [●]th Percentile, respectively.

Notwithstanding the foregoing, if the Company's Total Shareholder Return for the Performance Period is negative, the rTSR Modifier shall be [●]x.

Settlement Amount:

“**Settlement Amount**” means the aggregate number of shares of Common Stock received in settlement of the Gross Revenue Performance Stock Units and EBITDA Performance Stock Units (each as defined below) as described in paragraphs (1) and (2) below, and subject to adjustment pursuant to the rTSR Modifier as described in paragraph (3) below:

(1) **Gross Revenue Performance Stock Units** shall settle in a number of shares of Common Stock equal to:

- (a) If Cumulative Adjusted Gross Revenue is less than Threshold Cumulative Adjusted Gross Revenue: [●]% of the number of vested Gross Revenue Performance Stock Units;
- (b) If Cumulative Adjusted Gross Revenue is equal to or greater than Threshold Cumulative Adjusted Gross Revenue, but less than Target Cumulative Adjusted Gross Revenue: [●]% of the number of vested Gross Revenue Performance Stock Units;
- (c) If Cumulative Adjusted Gross Revenue is equal to or greater than Target Cumulative Adjusted Gross Revenue, but less than Maximum Cumulative Adjusted Gross Revenue: [●]% of the number of vested Gross Revenue Performance Stock Units; and
- (d) If Cumulative Adjusted Gross Revenue equals or exceeds Maximum Cumulative Adjusted Gross Revenue: [●]% of the number of vested Gross Revenue Performance Stock Units;

in each case of subsections (b) through (d), with linear interpolation for Cumulative Adjusted Gross Revenue between applicable Performance Goals.

(2) **EBITDA Performance Stock Units** shall settle in a number of shares of Common Stock equal to:

- (a) If Cumulative Adjusted EBITDA is less than Threshold Cumulative Adjusted EBITDA: [●]% of the number of vested EBITDA Performance Stock Units;
- (b) If Cumulative Adjusted EBITDA is equal to or greater than Threshold Cumulative Adjusted EBITDA, but less than Target Cumulative Adjusted EBITDA: [●]% of the number of vested EBITDA Performance Stock Units;

- (c) If Cumulative Adjusted EBITDA is equal to or greater than Target Cumulative Adjusted EBITDA, but less than Maximum Cumulative Adjusted EBITDA: [●]% of the number of vested EBITDA Performance Stock Units; and
- (d) If Cumulative Adjusted EBITDA equals or exceeds Maximum Cumulative Adjusted EBITDA: [●]% of the number of vested EBITDA Performance Stock Units; in each case of subsections (b) through (d),

with linear interpolation for Cumulative Adjusted EBITDA between applicable Performance Goals.

(3) **The rTSR Modifier** shall adjust the Settlement Amount as follows:

- (a) If the Total Shareholder Return for the Company as of the end of the Performance Period ranks in the [●]th Percentile, then the Settlement Amount, as determined under (a) or (b) above, as applicable, shall be multiplied by [●]x;
- (b) If the Total Shareholder Return for the Company as of the end of the Performance Period ranks in the [●]th Percentile, then the Settlement Amount, as determined under (a) or (b) above, as applicable, shall be multiplied by [●]x; and
- (c) If the Total Shareholder Return for the Company as of the end of the Performance Period ranks equal to or greater than the [●]th Percentile, then the Settlement Amount, as determined under (a) or (b) above, as applicable, shall be multiplied by [●]x,
- (d) If the Total Shareholder Return for the Company as of the end of the Performance Period ranks greater than the [●]th Percentile but less than the [●]th Percentile, the rTSR Modifier shall be determined by linear interpolation (i) between the [●]th and the [●]th Percentile or (ii) between the [●]th and the [●]th Percentile;

provided that, notwithstanding the foregoing, if the Company's rTSR ranks below the [●]th Percentile or if the Company's Total Shareholder Return is negative for the Performance Period, then the Settlement Amount, as determined under (a) through (d) above, as applicable, shall not be modified.

By his or her signature below, Participant agrees to be bound by the terms and conditions of the Plan, the Performance Stock Unit Award Agreement and this Grant Notice. Participant has reviewed the Performance Stock Unit Award Agreement, the Plan and this Grant Notice in their entirety, and fully understands all provisions of this Grant Notice, the Performance Stock Unit Award Agreement and the Plan.

NOVANTA INC.:

PARTICIPANT:

By: /s/ Robert J. Buckley

Print Name: Robert J. Buckley

Title: Chief Financial Officer

Address: 125 Middlesex Turnpike

Bedford, MA 01730

By: **#Signature#**

Name: **#ParticipantName#**

Address:

EXHIBIT A
TO PERFORMANCE STOCK UNIT AWARD GRANT NOTICE
PERFORMANCE STOCK UNIT AWARD AGREEMENT

Pursuant to the Performance Stock Unit Award Grant Notice (the “**Grant Notice**”) to which this Performance Stock Unit Award Agreement (this “**Agreement**”) is attached, Novanta Inc., a company organized under the laws of the Province of New Brunswick, Canada (the “**Company**”), has granted to Participant performance stock units (the “**Performance Stock Units**”) under the Novanta Inc. 2010 Incentive Award Plan, as amended from time to time (the “**Plan**”).

ARTICLE 1.
GENERAL

1.1 Defined Terms. Capitalized terms not specifically defined herein shall have the meanings specified in the Grant Notice and the Plan.

(a) “**Adjusted EBITDA**” means, with respect to any Performance Year, the Company’s non-GAAP EBITDA for such Performance Year calculated in accordance with the same methodology used to calculate such non-GAAP metric as reported in the Company’s earnings press release in the Company’s Current Report on Form 8-K furnished to the Securities and Exchange Commission for such Performance Year.

(b) “**Adjusted Gross Revenue**” means, with respect to any Performance Year, the Company’s non-GAAP gross revenue for such Performance Year calculated in accordance with the same methodology used to calculate such non-GAAP metric as reported in the Company’s earnings press release in the Company’s Current Report on Form 8-K furnished to the Securities and Exchange Commission for such Performance Year.

(c) “**Cause**” shall have the meaning of “Cause” (or similar term) set forth in Participant’s written employment agreement or, if no such written employment agreement (or no definition of “Cause” or similar term therein), shall mean (i) Participant’s willful failure to substantially perform the duties set forth in any written employment agreement (other than any such failure resulting from Participant’s Disability); (ii) Participant’s willful failure to carry out, or comply with, in any material respect any lawful and reasonable directive of the Board (or his or her supervisor); (iii) Participant’s commission at any time of any act or omission that results in, or may reasonably be expected to result in, a conviction, plea of no contest, plea of *nolo contendere*, or imposition of unadjudicated probation for any felony or crime involving moral turpitude; or (iv) Participant’s unlawful use (including being under the influence) or possession of illegal drugs on the Company’s premises or while performing Participant’s duties and responsibilities for the Company.

(d) “**CIC Qualifying Termination**” shall mean Termination of Service of Participant by the Company without Cause or by Participant for Good Reason during the twelve (12)-month period immediately following a Qualifying Change in Control. For the avoidance of doubt, in the event the terms and conditions of any employment or similar agreement between Participant and the Company conflict with this Agreement with respect to the treatment of the Performance Stock Units upon a CIC Qualifying Termination, the terms and conditions of the employment or similar agreement will control.

(e) “**Cumulative Adjusted EBITDA**” means the sum of Adjusted EBITDA for all Performance Years; provided that, if a Qualifying Change in Control occurs, Cumulative Adjusted EBITDA shall equal the Target Cumulative Adjusted EBITDA (as set forth in the Grant Notice).

(f) “**Cumulative Adjusted Gross Revenue**” means the sum of Adjusted Gross Revenue for all Performance Years; provided that, if a Qualifying Change in Control occurs, Cumulative Adjusted Gross Revenue shall equal the Target Cumulative Adjusted Gross Revenue (as set forth in the Grant Notice).

(g) “**Determination Date**” means the **15th Day of March** immediately after the end of the Performance Period.

(h) “**Disability**” shall mean Participant’s inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or that can be expected to last for (i) a continuous period of not less than 90 days or (ii) at least 180 total calendar days in any 12-month period, in each case as determined by a physician selected by the Company or its insurers and reasonably acceptable to Participant. The Company will inform Participant of the selection of the physician so that Participant may consent to such selection (and Participant’s consent shall not be unreasonably withheld). Participant shall be deemed to have consented to the selection of the physician if Participant does not provide the Company with written notice objecting to such selection within five business days of Participant being informed of the physician’s selection. If Participant objects to such selection (and the Company determines in good faith that such withholding is not unreasonable), then the Company shall select another physician pursuant to the process described in this Section 1.1(f).

(i) “**Good Reason**” shall have the meaning of “Good Reason” (or similar term) set forth in Participant’s written employment agreement or, if no such written employment agreement (or no definition of “Good Reason” or similar term therein), Participant shall have “Good Reason” to terminate his or her employment within one (1) year after the occurrence of one or more of the following conditions without Participant’s consent: (i) a material diminution in the nature or scope of Participant’s responsibilities, duties or authority; or (ii) a material change in the geographic location at which Participant must perform Participant’s material services to the Company (which shall in no event include a relocation of Participant’s principal place of business less than 50 miles from its location as of the Grant Date); provided, however, that, notwithstanding the foregoing, Participant may not resign his employment for Good Reason unless: (A) Participant provides the Company with at least 30 days prior written notice of his or her intent to resign for Good Reason (which notice is provided not later than the 90th day following Participant’s knowledge of the occurrence of the event constituting Good Reason); and (B) the Company does not remedy the alleged violation(s) within such 30-day period.

(j) “**Performance Period**” means the period commencing on **January 1 of the first Performance Year** and ending on **December 31 of the third Performance Year**, except, in the case of a Qualifying Change in Control, the period commencing on **January 1 of the first Performance Year** and ending on the last Trading Day preceding the date of Qualifying Change in Control.

(k) “**Performance Year**” means each of the 12-month periods starting on January 1 and ending on December 31 within the Performance Period.

(l) “**Percentile**” means the ranking of the Company’s Total Shareholder Return for the Performance Period determined by dividing (i) the total number of Russell 2000 Index Companies with a final Total Shareholder Return value for the Performance Period lower than the Company’s Total Shareholder Return value for the Performance Period by (ii) the total number of Russell 2000 Index

Companies (excluding the Company), rounded down to the nearest full percentage, using normal rounding convention.

(m) “**Qualifying Change in Control**” means a Change in Control consummated prior to the last day of the Performance Period.

(n) “**rTSR**” means the percentile rank of the Company’s Total Shareholder Return as compared to the Total Shareholder Return of each member of the Russell 2000 Index Companies, determined by dividing the number of members of the Russell 2000 Index Companies with Total Shareholder Return equal to or lower than the Company’s Total Shareholder Return for the Performance Period by the total number of the Russell 2000 Index Companies as of the end of the Performance Period minus one (1). rTSR constitutes a “Performance Measure” within the meaning of the Plan.

(o) “**Total Shareholder Return**” (or “**TSR**”) means, with respect to the Company or an individual Russell 2000 Index Company, as applicable, the percentage appreciation in the TSR Starting Common Stock Price to the TSR Final Common Stock Price, determined by dividing (i) the difference obtained by subtracting (A) the TSR Starting Common Stock Price, from (B) the TSR Final Common Stock Price on the last day of the Performance Period, assuming reinvestment of all dividends declared during the Performance Period as of the ex-dividend date, by (ii) the TSR Starting Common Stock Price (and rounding such amount to the nearest tenth of a percent). Additionally, as set forth in, and pursuant to, Section 3.4, appropriate adjustments to the Total Shareholder Return shall be made to take into account all stock dividends, stock splits, reverse stock splits and the other events set forth in Section 3.4 that occur between the Grant Date and the last day of the Performance Period.

(p) “**TSR Final Common Stock Price**” means the twenty (20) consecutive trading day trailing average (rounded to the nearest cent) of the closing price of the Company or of a Russell 2000 Index Company, as applicable, for the twenty (20) trading day period ending on, and including, the last day of the Performance Period (or, if the last day of the Performance Period is not a trading day, the most recent trading day immediately preceding such date), adjusted for dividend reinvestment on the ex-dividend date; provided that, if a Qualifying Change in Control occurs, the Company’s TSR Final Common Stock Price as of the date of such Qualifying Change in Control and thereafter shall be equal to (i) with respect to a Qualifying Change in Control described in Section 2.10(a) or (c) of the Plan, the fair market value, as determined by the Committee or the Board, of the total consideration paid or payable in the transaction resulting in such Change in Control for one share of Common Stock, and (ii) with respect to a Qualifying Change in Control described in Section 2.10(b) or (d) of the Plan, the twenty (20) consecutive trading day trailing average (rounded to the nearest cent) of the Fair Market Value for the twenty (20) trading day period ending on, and including, the date of such Qualifying Change in Control (or, if such date is not a trading day, the most recent trading day immediately preceding such date).

(q) “**TSR Starting Common Stock Price**” means the twenty (20) consecutive trading day trailing average (rounded to the nearest cent) of the closing price of the Company or of an individual Russell 2000 Index Company, as applicable, for the twenty (20) trading day period ending on, and including, the last day preceding the first day of the Performance Period (or, if the such date is not a trading day, the most recent trading day immediately preceding such date), adjusted for dividend reinvestment on the ex-dividend date.

“**Russell 2000 Index Companies**” means all companies that are included in the Russell 2000 Index maintained by FTSE Russell (^RUT) (the “**Russell 2000**”) as of **the last trading day immediately preceding the first day of the Performance Period** and will remain as a static group for purpose of measuring rTSR Modifier over the Performance Period, provided that: (i) if an Index Company is delisted due to bankruptcy, it shall remain as an Index Company in the lowest quartile; (ii) if an Index Company

is delisted or otherwise ceases trading as a public company, it shall cease to be a Russell 2000 Index Company for purpose of measuring the rTSR Modifier; or (iii) if a Russell 2000 Index Company is later excluded from the Russell 2000, it shall remain a Russell 2000 Index Company for purpose of measuring rTSR Modifier as long as such Russell 2000 Index Company's common stock continues to be traded on a national stock exchange in the United States with trading prices of its common stock publicly available.

1.2Incorporation of Terms of Plan. The Performance Stock Units are subject to the terms and conditions of the Plan, which are incorporated herein by reference. In the event of any conflict between the provisions of this Agreement and the Plan, the terms of the Plan shall control.

ARTICLE 2.

PERFORMANCE STOCK UNITS

2.1Grant of Performance Stock Units. In consideration of Participant's past and/or continued employment with or service to the Company or a Subsidiary and for other good and valuable consideration, effective as of the Grant Date, the Company grants to Participant an award of Performance Stock Units as set forth in the Grant Notice, upon the terms and conditions set forth in the Plan and this Agreement, subject to adjustments as provided in Article 14 of the Plan.

2.2Company's Obligation to Pay. Each Performance Stock Unit is a unit of measurement based on the Fair Market Value of a share of Common Stock that may entitle Participant to receive a payment in shares of Common Stock following the date it becomes vested. Unless and until the Performance Stock Units will have vested in the manner set forth in Article 2 hereof, Participant will have no right to payment of any such Performance Stock Units. Prior to actual payment in respect of any vested Performance Stock Units, such Performance Stock Units will represent the unconditional obligation of the Company to issue the equivalent number of shares of Common Stock, subject to applicable withholding requirements.

2.3Vesting. Subject to Sections 2.4 and 2.5 hereof, all Performance Stock Units will, subject to Participant's continued employment or services through [●] **following the end of the Performance Period**, vest and become nonforfeitable on [●] **following the end of the Performance Period** and shall be subject to settlement with respect to the number of shares of Common Stock as described on the Grant Notice and at the time set forth in Section 2.6.

2.4CIC Qualifying Termination. Notwithstanding the Grant Notice or the provisions of Sections 2.3 and 2.5(a) hereof, but subject to the terms of the Plan (and after taking into account any forfeiture under Section 2.5(d)), in the event of a CIC Qualifying Termination, all Performance Stock Units will vest and become nonforfeitable on the date of the CIC Qualifying Termination.

2.5Forfeiture, Termination and Cancellation. Notwithstanding any contrary provision of this Agreement:

(a) Except as otherwise set forth in Section 2.4 or as otherwise determined by the Administrator consistent with the Plan, upon Participant's Termination of Service for any or no reason, all then unvested Performance Stock Units subject to this Agreement will thereupon be automatically forfeited, terminated and cancelled as of the date of Termination of Service without payment of any consideration by the Company, and Participant, or Participant's beneficiary or personal representative, as the case may be, shall have no further rights hereunder.

(b) If, on or prior to the Determination Date, Cumulative Adjusted Gross Revenue is determined by the Administrator to be less than Threshold Cumulative Adjusted Gross Revenue, then any outstanding Gross Revenue Performance Stock Units shall automatically be forfeited by Participant on the date of such determination, and Participant, or Participant's beneficiary or personal representative, as the case may be, shall have no further rights hereunder.

(c) If, on or prior to the Determination Date, Cumulative Adjusted EBITDA is determined by the Administrator to be less than Threshold Cumulative Adjusted EBITDA, then any outstanding EBITDA Performance Stock Units shall automatically be forfeited by Participant on the date of such determination, and Participant, or Participant's beneficiary or personal representative, as the case may be, shall have no further rights hereunder..

2.6 Payment Following Vesting.

(a) As soon as administratively practicable on or following the end of the Vesting Period or, if earlier, the date of a CIC Qualifying Termination (but in no event later than the Determination Date or, if earlier, the date of a CIC Qualifying Termination) (for the avoidance of doubt, this deadline is intended to comply with the "short-term deferral" exemption from Section 409A of the Code as applicable to Participant who is a resident in the United States), the Company shall deliver to Participant (or any transferee permitted under Section 3.2 hereof) a number of shares of Common Stock (either by delivering one or more certificates for such shares or by entering such shares in book entry form, as determined by the Company in its sole discretion) equal to the Settlement Amount, unless such Performance Stock Units terminate prior to the given vesting date pursuant to Section 2.5 hereof. Notwithstanding anything to the contrary contained herein, the exact date of issuance of shares of Common Stock in respect of the Performance Stock Units during the period set forth in this Section 2.6(a) shall be determined by the Company in its sole discretion (and Participant shall not have a right to designate the time of payment). Notwithstanding the foregoing, the Company may delay a distribution or payment in settlement of RSUs if it reasonably determines that such payment or distribution will violate Federal securities laws or any other applicable law, *provided* that such distribution or payment shall be made at the earliest date at which the Company reasonably determines that the making of such distribution or payment will not cause such violation, as required by Treasury Regulation Section 1.409A-2(b)(7)(ii), if applicable to Participant, and *provided further* that no payment or distribution shall be delayed under this Section 2.6(a) if such delay will result in a violation of Section 409A of the Code, if applicable to Participant.

(b) Notwithstanding anything to the contrary in this Agreement, the Company shall be entitled to require payment by Participant of any sums required by applicable law to be withheld with respect to the grant and/or vesting of Performance Stock Units or the issuance of shares of Common Stock. Such payment shall be made by deduction from other compensation payable to Participant or in the following other form(s) of consideration (as determined appropriate by the Administrator):

(i) Cash or check;

(ii) With respect to any withholding taxes arising in connection with the distribution or other taxable event with respect to the RSUs, with the consent of the Administrator, by requesting that the Company and its Subsidiaries withhold a net number of vested shares of Common Stock otherwise issuable pursuant to the RSUs having a then current Fair Market Value not exceeding the amount necessary to satisfy the withholding obligation of the Company and its Subsidiaries based on the maximum statutory withholding rates in Participant's applicable jurisdictions for federal, state, local and foreign income tax and payroll tax purposes that are applicable to such taxable income;

(iii) With respect to any withholding taxes arising in connection with the distribution or other taxable event with respect to the RSUs, with the consent of the Administrator, through the delivery of a notice that Participant has placed a market sell order with a broker acceptable to the Company with respect to shares of Stock then issuable to Participant pursuant to the RSUs, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company or the Subsidiary with respect to which the withholding obligation arises in satisfaction of such withholding taxes; *provided* that payment of such proceeds is then made to the Company or the applicable Subsidiary at such time as may be required by the Administrator, but in any event not later than the settlement of such sale;

(iv) With respect to any withholding taxes arising in connection with the distribution or other taxable event with respect to the RSUs, with the consent of the Administrator, surrender of shares of Common Stock (including, without limitation, shares of Common Stock otherwise issuable under the RSUs) held for such period of time as may be required by the Administrator in order to avoid adverse accounting consequences and having a Fair Market Value on the date of delivery not greater than the aggregate amount required to be withheld based on the maximum statutory withholding rates in Participant's applicable jurisdiction for federal, state, local and foreign income tax and payroll tax purposes; or

(v) In any combination of the foregoing.

The Company shall not be obligated to deliver any new certificate representing shares of Common Stock to Participant or Participant's legal representative or enter such share of Common Stock in book entry form unless and until Participant or Participant's legal representative shall have paid or otherwise satisfied in full the amount of all federal, state and local taxes applicable to the taxable income of Participant resulting from the grant of the Performance Stock Units or the issuance of shares of Common Stock. To the extent that any Federal Insurance Contributions Act tax withholding obligations arise in connection with the Performance Stock Units prior to the applicable vesting or payment date, the Administrator may accelerate the payment in respect of a portion of the award of Performance Stock Units sufficient to satisfy (but not in excess of) such tax withholding obligations and any tax withholding obligations associated with any such accelerated payment, and the Administrator shall withhold such amounts in satisfaction of such withholding obligations.

(c) In the event any tax withholding obligation arising in connection with the RSUs will be satisfied under Section 2.6(a) (iii), then the Company may elect to instruct any brokerage firm determined acceptable to the Company for such purpose to sell on Participant's behalf a whole number of shares from those shares of Common Stock then issuable to Participant pursuant to the RSUs as the Company determines to be appropriate to generate cash proceeds sufficient to satisfy the tax withholding obligation and to remit the proceeds of such sale to the Company or the Subsidiary with respect to which the withholding obligation arises. Participant's acceptance of the RSUs constitutes Participant's instruction and authorization to the Company and such brokerage firm to complete the transactions described in this Section 2.6(c), including the transactions described in the previous sentence, as applicable. The Company may refuse to issue any shares of Common Stock in settlement of the RSUs to Participant until the foregoing tax withholding obligations are satisfied, *provided* that no payment shall be delayed under this Section 2.6(c) if such delay will result in a violation of Section 409A.

(d) Participant is ultimately liable and responsible for all taxes owed in connection with the RSUs, regardless of any action the Company or any Subsidiary takes with respect to any tax withholding obligations that arise in connection with the RSUs. Neither the Company nor any Subsidiary makes any representation or undertaking regarding the treatment of any tax withholding in connection with the awarding, vesting or payment of the RSUs or the subsequent sale of shares of Common Stock.

The Company and the Subsidiaries do not commit and are under no obligation to structure the RSUs to reduce or eliminate Participant's tax liability.

2.7Conditions to Delivery of Common Stock. Subject to Section 12.4 of the Plan, the shares of Common Stock deliverable hereunder, or any portion thereof, may be either previously authorized but unissued shares of Common Stock or issued shares of Common Stock which have then been reacquired by the Company. Such shares of Common Stock shall be fully paid and nonassessable. The Company shall not be required to issue or deliver any shares of Common Stock deliverable hereunder or portion thereof prior to fulfillment of all of the following conditions:

(a) The admission of such shares of Common Stock to listing on all stock exchanges on which such Common Stock is then listed;

(b) The completion of any registration or other qualification of such shares of Common Stock under any state or federal law or under rulings or regulations of the Securities and Exchange Commission or of any other governmental regulatory body, which the Administrator shall, in its absolute discretion, deem necessary or advisable;

(c) The obtaining of any approval or other clearance from any state or federal governmental agency which the Administrator shall, in its absolute discretion, determine to be necessary or advisable; and

(d) The lapse of such reasonable period of time following the end of the Performance Period or the date of a CIC Qualifying Termination, as applicable, as the Administrator may from time to time establish for reasons of administrative convenience (provided that delivery of shares of Common Stock shall in all events comply with the "short-term deferral" exemption from Section 409A of the Code).

2.8Rights as Stockholder. The holder of the Performance Stock Units shall not be, nor have any of the rights or privileges of, a stockholder of the Company, including, without limitation, voting rights and rights to dividends, in respect of the Performance Stock Units and any shares of Common Stock underlying the Performance Stock Units and deliverable hereunder unless and until such shares of Common Stock shall have been issued by the Company and held of record by such holder (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). No adjustment will be made for a dividend or other right for which the record date is prior to the date the shares of Common Stock are issued, except as provided in Section 14.2 of the Plan.

ARTICLE 3. OTHER PROVISIONS

3.1Administration. The Administrator shall have the power to interpret the Plan, this Agreement and the Grant Notice and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret, amend or revoke any such rules. All actions taken and all interpretations and determinations made by the Administrator (including, without limitation, determinations, interpretations and assumptions with respect to the Performance Goals) in good faith shall be final and binding upon Participant, the Company and all other interested persons. No member of the Committee or the Board shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan, this Agreement or the Performance Stock Units.

3.2Grant is Not Transferable. During the lifetime of Participant, the Performance Stock Units may not be sold, pledged, assigned or transferred in any manner other than by will or the laws of descent and distribution, unless and until the shares of Common Stock underlying the Performance Stock Units have been issued, and all restrictions applicable to such shares of Common Stock have lapsed. Neither the Performance Stock Units nor any interest or right therein shall be liable for the debts, contracts or engagements of Participant or his or her successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition thereof shall be null and void and of no effect, except to the extent that such disposition is permitted by the preceding sentence.

3.3Binding Agreement. Subject to the limitation on the transferability of the Performance Stock Units contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

3.4Adjustments Upon Specified Events. The Administrator may accelerate payment and vesting of the Performance Stock Units in such circumstances as it, in its sole discretion, may determine. In addition, upon the occurrence of certain events relating to the Common Stock contemplated by Section 14.2 of the Plan (including, without limitation, an extraordinary cash dividend on such Common Stock), the Administrator shall make such adjustments the Administrator deems appropriate in the number of Performance Stock Units then outstanding and the number and kind of securities that may be issued in respect of the Performance Stock Units. Participant acknowledges that the Performance Stock Units are subject to amendment, modification and termination in certain events as provided in this Agreement and Article 14 of the Plan.

3.5Notices. Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of the Secretary of the Company at the Company's principal office, and any notice to be given to Participant shall be addressed to Participant at Participant's last address reflected on the Company's records. By a notice given pursuant to this Section 3.5, either party may hereafter designate a different address for notices to be given to that party. Any notice shall be deemed duly given when sent via email or when sent by certified mail (return receipt requested) and deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service or similar foreign entity.

3.6Titles. Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

3.7Governing Law. The laws of the Commonwealth of Massachusetts shall govern the interpretation, validity, administration, enforcement and performance of the terms of this Agreement regardless of the law that might be applied under principles of conflicts of laws.

3.8Conformity to Securities Laws. Participant acknowledges that the Plan and this Agreement are intended to conform to the extent necessary with all provisions of the Securities Act and the Exchange Act and any and all regulations and rules promulgated by the Securities and Exchange Commission thereunder, and foreign and state securities laws and regulations. Notwithstanding anything herein to the contrary, the Plan shall be administered, and the Performance Stock Units are granted, only in such a manner as to conform to such laws, rules and regulations. To the extent permitted by applicable law, the Plan and this Agreement shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

3.9 Amendments, Suspension and Termination. To the extent permitted by the Plan, this Agreement may be wholly or partially amended or otherwise modified, suspended or terminated at any time or from time to time by the Committee or the Board; *provided* that, except as may otherwise be provided by the Plan, no amendment, modification, suspension or termination of this Agreement shall adversely affect the Performance Stock Units in any material way without the prior written consent of Participant.

3.10 Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth in Section 3.2 hereof, this Agreement shall be binding upon Participant and his or her heirs, executors, administrators, successors and assigns.

3.11 Limitations Applicable to Section 16 Persons. Notwithstanding any other provision of the Plan or this Agreement, if Participant is subject to Section 16 of the Exchange Act, the Plan, the Performance Stock Units and this Agreement shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 of the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by applicable law, this Agreement shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

3.12 Not a Contract of Service. Nothing in this Agreement or in the Plan shall confer upon Participant any right to continue to serve as an Employee, Director, Consultant or other service provider of the Company or any of its Subsidiaries or shall interfere with or restrict in any way the rights of the Company and its Subsidiaries, which rights are hereby expressly reserved, to discharge or terminate the services of Participant at any time for any reason whatsoever, with or without Cause, except to the extent expressly provided otherwise in a written agreement between the Company or a Subsidiary and Participant.

3.13 Entire Agreement. The Plan, the Grant Notice and this Agreement (including all exhibits thereto, if any) constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and its Subsidiaries and Participant with respect to the subject matter hereof.

3.14 Section 409A (applicable to only Participants subject to U.S. tax rules). The Performance Stock Units are not intended to constitute “nonqualified deferred compensation” within the meaning of Section 409A of the Code (together with any Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the date hereof, “**Section 409A**”). However, notwithstanding any other provision of the Plan, the Grant Notice or this Agreement, if at any time the Administrator determines that the Performance Stock Units (or any portion thereof) may be subject to Section 409A, the Administrator shall have the right in its sole discretion (without any obligation to do so or to indemnify Participant or any other person for failure to do so) to adopt such amendments to the Plan, the Grant Notice or this Agreement, or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, as the Administrator determines are necessary or appropriate either for the Performance Stock Units to be exempt from the application of Section 409A or to comply with the requirements of Section 409A.

3.15 Limitation on Participant’s Rights. Participation in the Plan confers no rights or interests other than as herein provided. This Agreement creates only a contractual obligation on the part of the Company as to amounts payable and shall not be construed as creating a trust. Neither the Plan nor any

underlying program, in and of itself, has any assets. Participant shall have only the rights of a general unsecured creditor of the Company with respect to amounts credited and benefits payable, if any, with respect to the Performance Stock Units, and rights no greater than the right to receive the Common Stock as a general unsecured creditor with respect to Performance Stock Units, as and when payable hereunder.

3.16 Account Administration. The Company may from time to time appoint a broker to administer the awards under the Plan. To the extent the Company appoints such a broker, Participant agrees that he or she shall, upon request by the Company, open an employee brokerage services account at such broker. In the event of any broker-assisted sale of shares of Common Stock in connection with the payment of withholding taxes as provided in Section 2.6(a)(ii) or Section 2.6(a)(iii): (A) any shares of Common Stock to be sold through a broker-assisted sale will be sold on the day the tax withholding obligation arises or as soon thereafter as practicable; (B) such shares of Common Stock may be sold as part of a block trade with other participants in the Plan in which all participants receive an average price; (C) Participant will be responsible for all broker's fees and other costs of sale, and Participant agrees to indemnify and hold the Company harmless from any losses, costs, damages, or expenses relating to any such sale; (D) to the extent the proceeds of such sale exceed the applicable tax withholding obligation, the Company agrees to pay such excess in cash to Participant as soon as reasonably practicable; (E) Participant acknowledges that the Company or its designee is under no obligation to arrange for such sale at any particular price, and that the proceeds of any such sale may not be sufficient to satisfy the applicable tax withholding obligation; and (F) in the event the proceeds of such sale are insufficient to satisfy the applicable tax withholding obligation, Participant agrees to pay immediately upon demand to the Company or its Subsidiary with respect to which the withholding obligation arises an amount in cash sufficient to satisfy any remaining portion of the Company's or the applicable Subsidiary's withholding obligation.

3.17 Additional Terms for Participants Providing Services Outside the United States. To the extent Participant provides services to the Company or a Subsidiary in a country other than the United States, the RSUs shall be subject to such additional or substitute terms as shall be set forth in Exhibit B attached hereto. If Participant relocates to one of the countries included in Exhibit B during the life of the RSUs, Exhibit B, including the provisions for such country, shall apply to Participant and the RSUs, to the extent the Company determines that the application of such provisions is necessary or advisable in order to comply with applicable law or facilitate the administration of the Plan. In addition, the Company reserves the right to impose other requirements on the RSUs and the shares of Common Stock issued upon vesting of the RSUs, to the extent the Company determines it is necessary or advisable in order to comply with local laws or facilitate the administration of the Plan, and to require Participant to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

EXHIBIT B
TO PERFORMANCE STOCK UNIT AWARD GRANT NOTICE

ADDITIONAL TERMS FOR PARTICIPANTS
PROVIDING SERVICES OUTSIDE THE UNITED STATES

This Exhibit B includes (i) additional terms and conditions applicable to a Participant who provides services to the Company outside the United States, and (ii) additional terms applicable to a Participant who provides services to the Company in the countries identified below. These terms and conditions are in addition to those set forth in the Grant Notice and Exhibit A and to the extent there are any inconsistencies between these terms and conditions and those set forth in the Grant Notice or Exhibit A, these terms and conditions shall prevail. Any capitalized term used in this Exhibit B without definition shall have the meaning ascribed to such term in the Plan, the Grant Notice or Exhibit A, as applicable.

For Participant's convenience and information, the Company has provided certain general information regarding some of the tax and/or exchange control requirements that may apply to Participant in certain of the countries identified in Article II below. Such information is current only as of March 2023 and the Company undertakes no obligation to update any such information and does not ensure that it is complete or correct. This information may not apply to Participant's individual situation, and may not be current as of any particular date in the future. The absence of any information on tax or foreign exchange requirements for any particular country should not be regarded as an indication that no such requirements apply in that country. The laws, rules and regulations of any country regarding the holding of securities may be subject to frequent change.

Participant is advised to seek appropriate professional advice as to how the relevant exchange control and tax laws in Participant's country may apply to Participant's individual situation.

ARTICLE I.

GLOBAL PROVISIONS APPLICABLE TO PARTICIPANTS IN ALL COUNTRIES OTHER THAN THE UNITED STATES

1. General Acknowledgements and Agreements: Participant further acknowledges and agrees that:

(a) No Guarantee of Continued Service. THE VESTING OF THE RSUS PURSUANT TO THE VESTING SCHEDULE WILL OCCUR ONLY IF PARTICIPANT CONTINUES AS A DIRECTOR, CONSULTANT OR EMPLOYEE (AS APPLICABLE) TO THE COMPANY OR A SUBSIDIARY THROUGH THE APPLICABLE VESTING DATE. PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A DIRECTOR, CONSULTANT OR EMPLOYEE FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND WILL NOT INTERFERE IN ANY WAY WITH PARTICIPANT'S RIGHT OR THE RIGHT OF THE COMPANY OR ANY SUBSIDIARY TO EFFECT A TERMINATION OF SERVICES AT ANY TIME, WITH OR WITHOUT CAUSE, IN COMPLIANCE WITH APPLICABLE LAWS NOR SHALL IT BE CONSTRUED TO AMEND OR MODIFY THE TERMS OF ANY CONSULTANCY, DIRECTORSHIP, EMPLOYMENT OR OTHER SERVICE AGREEMENT BETWEEN PARTICIPANT AND THE COMPANY OR ANY SUBSIDIARY.

(b) The Plan is discretionary in nature and that, subject to the terms of the Plan, the Company can amend, cancel or terminate the Plan at any time.

(c) The grant of the RSUs under the Plan is voluntary and occasional and does not give Participant any contractual or other right to receive RSUs or benefits in lieu of RSUs in the future, even if Participant has received RSUs repeatedly in the past.

(d) All determinations with respect to any future awards, including, but not limited to, the times when awards under the Plan shall be granted and the terms thereof, including the time or times when any RSUs may vest, will be at the sole discretion of the Company.

(e) Participant's participation in the Plan is voluntary.

(f) The value of the RSUs is an extraordinary item of compensation that is outside of the scope of Participant's directorship, consultancy or employment contract or relationship.

(g) The RSUs are not part of normal or expected compensation or salary for any purpose, including, without limitation, calculating severance, resignation, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits, or similar payments.

(h) The RSUs shall expire, terminate and be forfeited upon Participant's Termination of Services for any reason, except as otherwise explicitly provided in this Agreement and/or the Plan.

(i) The future value of the Shares that may be issued upon vesting of the RSUs is unknown and cannot be predicted with any certainty.

(j) If Participant is not an employee of the Company as of the Grant Date, the grant of the RSUs shall in no event be understood or interpreted to mean that the Company is Participant's employer or that Participant has an employment relationship with the Company.

(k) No claim or entitlement to compensation or damages arises from the expiration, termination or forfeiture of the RSUs or any portion thereof. Participant irrevocably releases the Company, its parent(s) and Subsidiaries from any such claim. Such a claim will not constitute an element of damages in the event of a Termination of Services for any reason, even if the termination is in violation of an obligation of the Company or any Subsidiary, to Participant.

(l) Neither the Company nor any Subsidiary has provided Participant, and nor will they provide Participant, with any specific tax, legal or financial advice with respect to the RSUs, the Shares issuable upon vesting of the RSUs, this Agreement or the Plan. Neither the Company nor any Subsidiary is making nor have they made any recommendations relating to Participant's participation in the Plan, the receipt of the RSUs or the acquisition or sale of Shares upon vesting of the RSUs.

(m) Participant shall bear any and all risk associated with the exchange of currency and the fluctuation of currency exchange rates in connection with this Award, including without limitation in connection with the sale of any Shares issued upon vesting of the RSUs ("**Currency Exchange Risk**"), and Participant hereby waives and releases the Company and its Subsidiaries from any claims arising out of Currency Exchange Risk.

(n) Participant agrees that it is Participant's responsibility to comply, and Participant shall comply, with any and all exchange control requirements applicable to the RSUs and the sale of Shares issued upon vesting of the RSUs and any resulting funds including, without limitation, reporting or repatriation requirements.

(o) Neither the Company nor any Subsidiary is responsible for Participant's legal compliance requirements relating to the RSUs or the ownership and possible sale of any Shares issued upon vesting of the RSUs, including, but not limited to, tax reporting, the exchange of U.S. dollars into or from Participant's local currency, the transfer of funds to or from the United States, and the opening and use of a United States brokerage account.

(p) If this Agreement, the Plan, any website or any other document related to the RSUs is translated into a language other than English, and if the translated version is different from the English version, the English language version will take precedence. Participant confirms having read and understood the documents relating to the Plan and the RSUs, including, without limitation, this Agreement, which were provided to Participant in English, and waive any requirement for the Company to provide these documents in any other language.

(q) Participant's right to vest in the RSUs will terminate effective as of the date that is the earlier of (1) the effective date of Participant's Termination of Service (whether or not in breach of local labor laws), or (2) the date Participant is no longer actively providing service, regardless of any notice period or period of pay in lieu of such notice required under Applicable Laws (including, but not limited to statutory law, regulatory law and/or common law); the Company shall have the exclusive discretion to determine when Participant is no longer actively providing service for purposes of the RSUs.

(r) To the extent Participant is providing services in a country identified in Article II of this Exhibit B, Participant understands and agrees that the provisions for such country apply and are incorporated into the Agreement.

2. Consent to Personal Data Processing and Transfer. In addition to any Personnel Privacy notice Participant received in connection with Participant's service with the Company: The Company, its Subsidiaries and their respective affiliates (the "**Company Entities**") may hold, and by accepting the RSUs Participant consents to their holding, Participant's personal information, including Participant's name, home address, telephone number, date of birth, social security number or other employee tax identification number, national identification number, passport number, employment history and status, salary, nationality, job title, and information about any equity compensation grants or Shares awarded, cancelled, purchased, vested, unvested or outstanding in Participant's favor (the "**Data**").

The Company Entities use the Data for the purpose of implementing, managing and administering the Plan and for compliance and financial reporting purposes (the "**Purpose**").

The Company Entities may transfer, and by accepting the RSUs Participant consents to any such transfer of, the Data to other Company Entities, to certain third party entities to assist the Company Entities in the Purpose. The Company Entities may also make the Data available to public authorities where required by law or regulation. The third parties and public authorities may be located in the United States, the European Economic Area, or elsewhere, including in territories where data protection laws may not be as protective as in Participant's jurisdiction of residence.

If Participant has any questions, or wishes to withdraw Participant's consent to any activities described herein, Participant should contact Participant's local talent management representative or the Company's data protection officer. Please note that if Participant withdraws Participant's consent, the Company may not be able to administer this Award, which may result in the cancelation of this Award.

Participant agrees that the Company Entities and third parties may process Data as described above, including transfer to and use in countries in which data protection laws may not be as protective as in Participant's jurisdiction of residence.

ARTICLE II.

COUNTRY SPECIFIC PROVISIONS APPLICABLE TO PARTICIPANTS WHO PROVIDE SERVICES IN THE IDENTIFIED COUNTRIES

CHINA

Settlement of Restricted Share Units and Sale of Shares. The following provisions supplement Section 2.6(b) of the Agreement.

Sale of Shares May be Required. The Company may, in its sole discretion, require Participant to sell at, or any time following, vesting, the Shares Participant receives when Participant's RSUs vest. Participant authorizes the Company or a brokerage firm designated by the Company to perform this transaction for Participant, and agrees that applicable commissions and fees due in connection with the sale may be deducted from Participant's proceeds. Participant acknowledges that such Shares will be sold at prevailing market prices and waives any claim based on the timing of the sale or the price received for the Shares.

The award agreements for some restricted shares units granted to Participant in the past (if any), whether under the Plan or any other Company equity incentive plan (collectively, the "**Prior RSUs**") may have required that whenever such Prior RSUs vest, all Shares issued as a result of such vesting must be sold. Participant agrees that, with respect to the Prior RSUs (if any), the Company or a brokerage firm designated by the Company may sell that number of Shares determined in accordance with this Agreement to satisfy any resulting tax withholding obligations of the Company when Prior RSUs vest and allow Participant to hold the remaining Shares, subject to compliance with these country provisions for China. The award agreements covering Participant's Prior RSUs (if any) will be deemed amended to the extent necessary to reflect this paragraph.

If Sale of Shares is not Required at Vest. When Participant's RSUs vest, if the Company does not require the immediate sale of the Shares Participant is entitled to receive, the Company may require that Participant retain those Shares in Participant's account at a brokerage firm designated by the Company until Participant sells the Shares, even if Participant stops providing services for the Company or a Subsidiary.

Following Participant's Termination of Services, the Company may restrict Participant's ability to sell or transfer any Shares remaining in Participant's account and sell those Shares at a time determined by the Company in its sole discretion. Participant agrees not to bring any claim against the Company, any Subsidiary or such brokerage firm designated by the Company (as applicable) based on the timing of any such sale or the price at which any such Shares are sold.

Without limiting the foregoing, all the Shares issued in respect of Participant's RSUs or Participant's Prior RSUs (if any) must be sold within six (6) months following Participant's Termination of Services. The Company may, in its sole discretion, require Participant to sell at any time during this six (6)-month period, such Shares. Any Shares issued in respect of Participant's RSUs or Participant's Prior RSUs (if any) that remain in Participant's account at a brokerage firm during the last two (2) weeks of such six (6)-month period may be automatically sold by such agent as designated by the Company during such two (2) week period, with the actual date of such sale determined by the Company or such agent in its sole discretion. Neither the Company nor such agent will guarantee the sale price for any such sale and Participant shall be solely responsible for fluctuations in the value of the Shares until sale. The award agreements covering Participant's Prior RSUs (if any) will be deemed amended to the extent necessary to reflect this paragraph.

Payment of Sale Proceeds. Participant understands and agrees that, pursuant to exchange control requirements in China, Participant may be required to repatriate to China the cash proceeds from the sale of the Shares issued upon the settlement of the RSUs and that the Company may be required to effect that repatriation through a special exchange control account established by the Company or a Subsidiary. Participant agrees that any proceeds from the sale of any Shares Participant acquires may be transferred to such special account prior to being delivered to Participant. Participant also understands that there may be significant delays in delivering the funds to Participant due to exchange control requirements in China and agree not to make any claim against the Company or any Subsidiary as a result of the amount of time it takes to deliver the funds to Participant.

Proceeds may be paid to Participant in U.S. dollars or local currency at the Company's discretion. If the proceeds are paid to Participant in U.S. dollars, Participant will be required to set up a U.S. dollar bank account in China so that the proceeds may be deposited into this account. If the proceeds are paid to Participant in local currency, the Company is under no obligation to obtain any particular exchange conversion rate and the Company may face delays in converting the proceeds to local currency due to exchange control restrictions.

Further Actions. Participant further agrees to comply with any other requirements that may be imposed by the Company in the future in order to facilitate compliance with exchange control requirements in China.

CZECH REPUBLIC

Exchange Control Information. The Czech National Bank (the "**CNB**") may require Participant to fulfill certain notification duties in relation to the RSUs and the opening and maintenance of a foreign account. Even in the absence of a request from the CNB, the Participant may need to report foreign direct investments with an aggregate value of CZK 2,500,000 or more or other foreign financial assets with a value of CZK 200,000,000 or more. However, because exchange control regulations change frequently and without notice, Participant should consult Participant's personal legal advisor prior to the vesting of the RSUs to ensure compliance with current regulations. It is Participant's responsibility to comply with applicable Czech exchange control laws.

GERMANY

Insider Trading. By accepting the RSUs, Participant acknowledges that it may be subject to insider trading rules, which may affect the sale of Shares acquired upon vesting of the RSUs. German securities laws prohibit insider trading according to Article 14 of the Market Abuse Regulation (VO (EU) 596/2014) if the shares are traded, admitted or for which admission on trading has been requested on a trading venue in the European Union.

Exchange Control Information. Cross-border payments in excess of €12,500 must be reported monthly to the German Federal Bank. If Participant receives cross-border payments in excess of €12,500 in connection with the sale of securities (including Shares acquired under the Plan) or the receipt of dividends paid on such Shares, Participant must report by the fifth day of the month following the month in which the payment was received. The report must be filed electronically. The form of report can be accessed via the German Federal Bank's website at www.bundesbank.de and is available in both German and English.

Participants with tax nexus in Germany. Each Participant who is either (i) resident for tax purposes in Germany or (ii) otherwise subject to German income tax and/or social security contributions in respect of

earnings received from the Company or any Affiliate shall be obliged to notify his or her employing entity (the “**Employer**”) of the granting, vesting or payment of RSUs. The Employer shall have the authority and the right to deduct or withhold, or require the Participant to remit to the Employer, an amount sufficient to satisfy any Tax Liability required by law to be withheld including, without limitation, the authority to deduct such amounts from other compensation payable to the Participant by the Employer. A “**Tax Liability**” shall be any liability for income tax, wage tax, solidarity surcharge or social security contributions arising as a result of the RSUs or otherwise under this Agreement. The Participant understands that he may suffer adverse tax consequences as a result of the RSUs. Neither the Company nor the Employer or any Affiliate makes any representation or undertaking regarding the treatment of any tax withholding in connection with the granting, vesting or payment of the RSUs. The Company and its Subsidiaries do not commit and are under no obligation to structure the Plan to reduce or eliminate Participant’s tax liability. The Participant represents that they have had the opportunity to consult with any tax consultants they deem advisable in connection with the Plan and that they are not relying on the Company or the Employer for any tax advice. The Participant is relying solely on such advisors and not on any statements or representations of the Company, the Employer or any of their agents.

ITALY

Plan Document Acknowledgment. In accepting the Performance Stock Units, the Participant acknowledges a copy of the Plan was made available to the Participant, and that the Participant has reviewed the Plan and the Agreement, including this Appendix, in their entirety and fully understands and accepts all provisions of the Plan, and the Agreement.

Authorization to Release and Transfer Necessary Personal Information. The following supplements Section 2 of Part I of this Exhibit B.

Participant understands that Data will be held only as long as is required by law or as necessary to implement, administer and manage Participant’s participation in the Plan or for compliance or financial reporting purposes. Participant understands that pursuant to art.7 of D.lgs 196/2003, Participant has rights, including but not limited to, the right to access, delete, update, request the rectification of Participant’s Data and cease the Data processing and to object, in whole or in part, on legitimate grounds, to the processing of Participant’s Data, even though they are relevant to the purpose of collection. Furthermore, Participant is aware that Participant’s Data will not be used for direct marketing purposes. In addition, the Data provided can be reviewed and questions or complaints can be addressed by contacting a local HR representative. If Participant requests that the Company cease processing Participant’s personal data, Participant must do so by writing to the Company’s **Stock Administration Department**, or sending an email to **StockPlanAdmin@novanta.com**. If Participant requests that the Company cease processing Participant’s Data, the Company will not be able to administer this award. Accordingly, if Participant requests that the Company cease processing Participant’s Data, this Award will be cancelled when Participant’s withdrawal is received.

Furthermore, having read and understood the information given on the processing of the Data and being acquainted of the rights set forth in art. 7 of D.lgs. 196/2003, Participant expressly and specifically consents according to art. 23 of D.lgs. 196/2003, to the processing of any Data as reported in the Plan and the Agreement, including the clauses “Consent to Personal Data Processing and Transfer” in Section 2 of Part I of this Exhibit B and “Authorization to Release and Transfer Necessary Personal Information” and further expressly and specifically consents, according to art. 43 and art. 44 of D.lgs. 196/2003 to the transfer of the Data, even sensitive data, in foreign Countries outside the European Union.

Exchange Control Information. Participant is required to report in Participant's annual tax return: (a) any transfers of cash or Shares to or from Italy exceeding €10,000 or the equivalent amount in U.S. dollars; and (b) any foreign investments or investments (including proceeds from the sale of Shares acquired under the Plan) held outside of Italy exceeding €10,000 or the equivalent amount in U.S. dollars, if the investment may give rise to income in Italy. Participant are exempt from the formalities in clause (a) if the investments are made through an authorized broker resident in Italy, as the broker will comply with the reporting obligation on Participant's behalf.

JAPAN

Exchange Control Information. If a Participant acquires Shares valued at more than ¥100,000,000 in a single transaction, such Participant must file a Securities Acquisition Report with the Ministry of Finance ("**MOF**") through the Bank of Japan within 20 days of the settlement of the RSUs. The precise reporting requirements vary depending on whether the relevant payment is made through a bank in Japan.

Foreign Asset/Account Reporting Notification. Details of any assets held outside Japan (including Shares acquired under the Plan) as of December 31 of each year must be reported to the tax authorities on an annual basis, to the extent such assets have a total net fair market value exceeding ¥50,000,000. Such report is due by March 15 each year. The Participant should consult a personal tax advisor to determine if the reporting obligation applies to the Participant and whether the Participant will be required to include details of the Participant's outstanding Restricted Stock Units or Shares in the report.

**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.

May 9, 2023

/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.

May 9, 2023

/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 March 31, 2023 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.

May 9, 2023

/s/ Matthijs Glastra

Matthijs Glastra

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**

In connection with the Quarterly Report of Novanta Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2023 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.

May 9, 2023

/s/ Robert J. Buckley

Robert J. Buckley

Chief Financial Officer
