

NOVANTA INC
Form 10-K
March 06, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the transition period from _____ to _____

Commission File No. 001-35083

Novanta Inc.

(Exact name of registrant as specified in its charter)

New Brunswick, Canada
(State or other jurisdiction

of incorporation or organization)

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

98-0110412
(I.R.S. Employer

Identification No.)

01730
(Zip Code)

(781) 266-5700

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(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
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Common Shares, no par value	The NASDAQ Stock Market LLC
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Securities Registered Pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

The aggregate market value of the Registrant's outstanding common shares held by non-affiliates of the Registrant, based on the closing price of the common shares on the NASDAQ Global Select Market on the last business day of the Registrant's most recently completed second fiscal quarter (July 1, 2016) was \$479,741,621. For purposes of this disclosure, common shares held by officers and directors of the Registrant and by persons who hold more than 10% of the Registrant's outstanding common shares have been excluded because such persons may be deemed to be affiliates.

This determination of affiliate status is not necessarily conclusive.

As of February 21, 2017, there were 34,459,387 of the Registrant's common shares, no par value, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement for the Registrant's Annual Meeting of Shareholders scheduled to be held on May 10, 2017 to be filed with the Securities and Exchange Commission are incorporated by reference in answer to Part III of this Annual Report on Form 10-K.

NOVANTA INC.

FORM 10-K

YEAR ENDED DECEMBER 31, 2016

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As used in this report, the terms “we,” “us,” “our,” “Novanta,” “NOVT” and the “Company” mean Novanta Inc. and its subsidiaries, unless the context indicates another meaning.

Unless otherwise noted, all dollar amounts in this report are expressed in United States dollars.

The following brand and trade names of Novanta Inc. are used in this report: MicroE, Celera Motion, Westwind, Synrad, Cambridge Technology, ExoTec Precision, General Scanning, Photo Research, JADAK, NDS, NDSsi, Applimotion, Lincoln Laser, Skyetek and Reach Technology.

PART I

Cautionary Note Regarding Forward Looking Statements

Except for historical information, the matters discussed in this Annual Report on Form 10-K are forward looking statements that involve risks, uncertainties and assumptions that, if they never materialize or if they prove incorrect, could cause our consolidated results to differ materially from those expressed or implied by such forward looking statements. The Company makes such forward looking statements under the provision of the “Safe Harbor” section of the Private Securities Litigation Reform Act of 1995. Actual future results may vary materially from those projected, anticipated, or indicated in any forward looking statements as a result of various important factors, including those set forth in Item 1A of this Annual Report on Form 10-K under the heading “Risk Factors.” Readers should also carefully review the risk factors described in the other documents that we file with the SEC from time to time. In this Annual Report on Form 10-K, the words “anticipates,” “believes,” “expects,” “intends,” “future,” “could,” “estimates,” “plans,” “would,” “potential,” “continues” and similar words or expressions (as well as other words or expressions referencing future events, conditions or circumstances) identify forward looking statements. Forward looking statements also include the assumptions underlying or relating to any of the forward looking statements. The forward looking statements contained in this Annual Report include, but are not limited to, statements related to: 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; 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; changes in accounting principles; changes in actual or assumed tax liabilities; expectations regarding tax exposures; anticipated reinvestment of future earnings and dividend policy; anticipated expenditures in regard to the Company’s benefit plans; future acquisitions, integration and dispositions and anticipated benefits from acquisitions; anticipated use of currency hedges; ability to repay our indebtedness; our intentions regarding the use of cash; expectations regarding legal and regulatory environmental requirements and our compliance thereto; and other statements that are not historical facts. All forward looking statements included in this document are based on information available to us on the date hereof. We will not undertake and specifically decline any obligation to update any forward looking statements, except as required under applicable law.

Item 1. Business

Overview

Novanta Inc. and its subsidiaries (collectively referred to as “Novanta”, the “Company”, “we”, “us”, “our”) design, develop, manufacture and sell precision photonic and motion control components and subsystems to Original Equipment Manufacturers (“OEMs”) in the medical and advanced industrial markets. We combine deep expertise at the intersection of photonics and motion 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. We deliver highly engineered photonics, vision and precision motion solutions to customers around the world.

Novanta Inc. was founded and initially incorporated in Massachusetts in 1968 as General Scanning, Inc. (“General Scanning”). In 1999, General Scanning merged with Lumonics Inc. The post-merger entity, GSI Lumonics Inc., continued under the laws of the Province of New Brunswick, Canada. In 2005, the Company changed its name to GSI Group Inc. Through a series of strategic divestitures and acquisitions between 2008 and 2015, the Company transformed from a focus on the semiconductor industry to primarily selling components and sub-systems to OEMs in the medical and advanced industrial markets. The Company changed its name to Novanta Inc. in May 2016.

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 mission-critical 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;

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- increasing our penetration of high growth advanced industrial applications, such as laser materials processing, robotics, 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, expanded sales and marketing channels to reach target customers, 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, including increasing our recurring revenue streams such as services, spare parts and consumables;
- improving our existing operations to expand profit margins and improve customer satisfaction by implementing lean manufacturing principles and strategic sourcing across our major production sites; and
- attracting, retaining, and developing world-class talented and motivated employees.

Acquisitions

In January 2017, the Company acquired approximately 35% of the outstanding shares of Laser Quantum Limited (“Laser Quantum”), a Manchester, United Kingdom-based provider of solid state continuous wave lasers, femtosecond lasers, and optical light engines to OEMs in the medical market, for a total purchase price of £25.5 million (\$31.8 million in U.S. dollars). As a result of the acquisition of these additional shares, the Company’s equity ownership percentage increased from approximately 41% to approximately 76% and the future financial results of Laser Quantum will be consolidated in the Company’s consolidated financial statements.

Also in January 2017, the Company acquired ThingMagic, a Woburn, Massachusetts-based provider of ultra high frequency (“UHF”) radio frequency identification (“RFID”) modules and finished RFID readers to OEMs in the medical and advanced industrial markets, for a total purchase price of \$19.2 million, subject to customary working capital adjustments.

In May 2016, the Company acquired Reach Technology Inc., a Fremont, California-based provider of embedded touch screen technology solutions to OEMs in the medical and advanced industrial markets, for a total purchase price of \$9.4 million.

In December 2015, the Company acquired all assets and certain liabilities of Skyetek Inc., a Denver, Colorado-based provider of embedded and standalone RFID solutions for OEM customers in the medical and advanced industrial markets, for a total purchase price of \$2.8 million.

In November 2015, the Company acquired certain assets and liabilities of Lincoln Laser Company, a Phoenix, Arizona-based provider of ultrafast precision polygon scanners and other optical scanning solutions for the medical and advanced industrial markets, for a total purchase price of \$12.1 million.

In February 2015, the Company acquired Applimotion Inc., a Loomis, California-based provider of advanced precision motor and motion control technology to OEM customers in the medical and advanced industrial markets, for a total purchase price of \$14.0 million.

In March 2014, the Company acquired JADAK LLC, JADAK Technologies Inc. and Advance Data Capture Corporation (together, “JADAK”), a North Syracuse, New York-based provider of optical data collection and machine vision technologies to OEM medical device manufacturers, for a total purchase price of \$93.7 million.

In January 2013, the Company acquired NDS Surgical Imaging LLC (“NDS”), a San Jose, California-based company that designs, manufactures, and markets high definition visualization solutions and imaging informatics products for the surgical, radiology and patient monitoring market segments, for a total final purchase price of \$75.4 million.

Divestitures and Product Rationalization

We continuously evaluate our business mix and financial performance. Since 2011, we have executed a series of divestitures in line with our strategy.

In January 2016, the Company discontinued its radiology products, sold under the Dome brand name and operated within the Company's Visualization Solutions product line. Total revenue from these products was approximately \$1.4 million, \$9.4 million and \$11.5 million in 2016, 2015, and 2014, respectively.

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In June 2015, the Company finalized an agreement to divest its 50% owned joint venture in India, Excel Laser Technology Private Limited, for net cash proceeds of \$0.2 million.

In April 2015, the Company completed the sale of its fiber laser business, operated under the JK Lasers brand name, for \$29.6 million in cash.

In July 2014, the Company completed the sale of the Scientific Lasers business, operated under the Continuum and Quantronix brand names, for \$6.5 million in cash.

In May 2013, the Company sold the Semiconductor Systems business, operated under the GSI Group brand name, for \$9.7 million in cash.

In October 2012, the Company divested the Lasers Systems business, operated under the Control Laser and Baublys brand names, for \$6.6 million in cash.

Segments

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 following table shows the external revenues, gross profit margin and operating profit for each of the segments for the year ended December 31, 2016 (dollars in thousands):

	Revenue	Gross Profit Margin	Operating Profit
Photonics	\$ 174,158	44.0 %	\$ 34,825
Vision	\$ 122,250	38.6 %	\$ (1,277)
Precision Motion	\$ 88,350	45.3 %	\$ 21,101

See Note 16 to Consolidated Financial Statements for additional financial information about our reportable segments.

Photonics

The Photonics segment (formerly known as Laser Products) designs, manufactures and markets photonics-based solutions, including CO2 laser sources, and laser scanning and laser beam delivery products, to customers worldwide. The segment serves highly demanding photonics-based applications such as industrial material processing, metrology, medical and life science imaging, and medical laser procedures. 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.

The Photonics segment is comprised of three product lines:

Product Line	Key End Market	Brand Names	Description
Laser Beam Delivery Components	Advanced Industrial and Medical	Cambridge Technology, Lincoln Laser & ExoTec Precision	Galvanometer and polygon-based optical scanning components. These products provide precise control and delivery of laser beams through motorized manipulation of mirrors and optical elements and are integrated by OEM manufacturers with their controlling hardware and software. Applications include material processing (such as laser marking, laser machining and laser drilling), scanning microscopy, laser-based vision correction, optical coherence tomography imaging, high resolution printing, holographic imaging and storage, metrology, and 2D or 3D imaging.
Laser Beam Delivery Solutions	Advanced Industrial and Medical	Cambridge Technology, Lincoln Laser & Synrad	Galvanometer and polygon based optical scan heads. These products provide precise control and delivery of laser beams through motorized manipulation of mirrors and optical elements in two and three-axis scan heads, scanning subsystems, and controlling hardware and software. Applications include material processing (such as laser marking, laser coding, laser engraving, laser machining and laser drilling), scanning microscopy, laser-based vision correction, optical coherence tomography imaging, high resolution printing, holographic imaging and storage, metrology, and 2D or 3D imaging. Laser processing heads are used for laser cutting and welding as well as for brazing in the advanced industrial market.
CO ₂ Lasers	Advanced Industrial	Synrad	Both continuous and pulsed CO ₂ lasers with power ranges from 5 to 400 watts. Applications include coding, marking, engraving, cutting and trimming of metals and non-metals, fine materials processing, additive manufacturing, packaging converting, and medical applications in dental and dermatology.

Vision

The Vision segment (formerly known as Vision Technologies) designs, manufactures and markets a wide range of medical grade technologies, including visualization solutions, imaging informatics products, optical data collection and machine vision technologies, RFID technologies, thermal printers, light and color measurement instrumentation, and embedded touch screen solutions, 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.

The Vision segment has nine product lines:

Product Line	Key End Market	Brand Names	Description
Visualization Solutions	Medical	NDS, NDSsi	