Operator: Greetings and welcome to the Allied Motion Technologies Fourth Quarter and Fiscal Year 2022 Financial Results Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded.

I would now like to turn the call over to Craig Mychajluk of Investor Relations. Thank you. You may begin.

Craig Mychajluk: Yes. Thank you and good morning, everyone. We certainly appreciate your time today as well as your interest in Allied Motion. Joining me on the call are Dick Warzala, our Chairman, President and CEO; and Mike Leach, our Chief Financial Officer. Dick and Mike are going to review our fourth quarter and full year 2022 results and provide an update on the company's strategic progress and outlook, after which we'll open up for Q&A. You should have a copy of the financial results that were released yesterday after the market closed. If not, you can find it on our website at alliedmotion.com, along with the slides that accompany today's discussion.

If you are reviewing our slides, please turn to **slide 2** for the Safe Harbor statement. As you are aware, we may make forward-looking statements on this call during the formal discussion as well as during the Q&A. These statements apply to future events that are subject to risks and uncertainties as well as other factors that could cause actual results to differ materially from what is stated on today's call. These risks, uncertainties and other factors are discussed in the earnings release, as well as with other documents filed by the company with the Securities and Exchange Commission. You can find these documents on our website or at sec.gov.

I want to point out as well that during today's call we will discuss some non-GAAP measures, which we believe will be useful in evaluating our performance. You should not consider the presentation of this additional information in isolation or as a substitute for results prepared in accordance with GAAP. We have provided reconciliation of non-GAAP to comparable GAAP measures in the tables accompanying the earnings release and slides.

With that, please turn to **slide 3**, and I'll turn it over to Dick to begin.

Dick Warzala: Thank you, Craig, and welcome, everyone. The fourth quarter capped off a record year for Allied as we continue to execute our strategy, leverage our diversified end market mix, and further develop our One Allied global platform.

I'm incredibly proud of the teamwork and dedication of the entire Allied team as their consistent and focused efforts advanced our strategic priorities both organically and inorganically while navigating macro headwinds.

There were a number of highlights during the fourth quarter as revenue grew 35% due to higher demand across each of our target markets, which included incremental sales from acquisitions and impressive organic growth of 18% during the quarter. Equally important was the strengthening of our margin profile in spite of the overall inefficiencies created by the global supply chain and labor constraints. Both operating income and net income doubled over last year's fourth quarter. And on an adjusted basis, our earnings per share were $0.43, up from $0.30 last year.

For the year, we reached a milestone as our revenue grew 25% to cross the $500 million level. We achieved solid annual organic growth of 12% on a constant currency basis, which reflected strong demand within our industrial and aerospace and defense markets.

We believe our performance across markets substantiates the investments we have made to grow, diversify and strengthen our business. As you know, strategic acquisitions are a key component of our growth strategy. We completed three acquisitions in the fourth quarter of

2021, and another three in the second quarter of 2022. Collectively, they enhanced our value proposition with new technology offerings, strengthened our competitive position and improved our overall margin profile. The integrations have progressed well and our teams are working hard to maximize opportunities and realize the full potential of these businesses.

Overall, we achieved our stated goal of gross margin expansion, reaching a record 31.3% for the year, which was up 130 basis points. Though we have not yet fully leveraged it, this acquisition cost, we still delivered annual net income of $17.4 million or $1.09 per diluted share. In an adjusted basis, net income per share of $1.88 which was up 18% for the year.

With that, let me turn it over to Mike for a more in-depth review of the financials.

Michael R. Leach: Thank you, Dick. As a reminder, our results include the acquisitions completed during the fourth quarter of 2021 and the second quarter of 2022. Starting on **slide 5**, we provide some detail regarding our top line. As expected, we did see some minor seasonality creeping back into the business during the fourth quarter, particularly in December, due primarily to the typical holiday shutdowns and customer inventory adjustments associated with general business conditions normalizing.

Nevertheless, fourth quarter revenue increased 35% to $131 million, which reflected higher demand across each of our target markets and incremental sales from acquisitions. The unfavorable impact of exchange rate fluctuations on revenue was $6.7 million in the quarter. Excluding FX, revenue was up 42% and organic revenue growth was 18.3%.

Revenue in the aerospace and defense market grew 197% from organic growth, program timing, and incremental acquisition demand. Industrial market sales growth was 46%, reflecting the strong end market demand in industrial automation, material handling, and electronics. We saw 8% sales growth within our vehicle market, largely from commercial automotive, trucks, and powersports demand. While medical markets benefited from surgical-related markets and medical pumps, there were offsetting pressures due to lower pandemic-related sales. The distribution market, while a small component of our total revenue, increased 22% during the quarter.

As Dick highlighted, our full year results are also strong, with revenue growth of 25%. On a constant currency basis, revenue was up 30% for the year, which included 12% organic growth. Sales to US customers were 58% of our total compared with 54% for 2021, with the balance of sales to customers primarily in Europe, Canada and Asia Pacific. The shift in mix continued to reflect the impacts of our recent acquisitions that largely sell to the US markets.

Slide 6 shows the change in our revenue mix by market for the full year period, along with the 2022 growth rate for each market and the drivers behind the change. Sales to industrial markets were up 43%, driven by the verticals noted on the slide. Industrials has seen nice growth over the last year and continues to be our largest market, making up 38% of our total sales. Vehicle grew slightly as strong truck and commercial vehicle demand offset lower sales in construction and powersports. Medical market revenue was nearly flat on a full year basis, reflecting similar impacts in the fourth quarter. While acquisitions contribute to the aerospace and defense growth, we were also driving solid organic growth and benefiting from the defense market program timing.

As highlighted on **slide 7**, our fourth quarter gross margin was 31.1%, up 240 basis points from the year ago period. Higher volume, margin-accretive acquisitions and pricing more than offset continued global supply chain disruptions and rising material and labor costs. Consistent with our stated objectives, you can see the progress we are making by executing our strategy in the annualized chart on the right as we achieved a record annual gross margin level of 31.3%.

While our recent M&A activity is certainly helping, we also equate this performance to our global teams that continue to drive higher margins solution-based sales.

Moving on to **slide 8**, fourth quarter operating income more than doubled to $8.2 million or 6.2% of sales, which was up 210 basis points. Operating costs and expenses as a percent of revenue were 24.8%, up a modest 30 basis points, largely attributable to our second quarter M&A activity. Operating costs for the full year were also elevated due to M&A activity, which resulted in higher engineering and R&D costs, intangible amortization expense and business development costs. Over time, we expect to fully leverage those expenses with continued sales growth.

On **slide 9**, we present GAAP net income and adjusted net income, along with our adjusted EBITDA results. Our net income and diluted EPS have been adjusted for certain items, which we believe provides a better understanding of our earnings power, inclusive of adjusting for non-cash amortization of intangible assets, which reflects the company's strategy to grow through acquisitions as well as organically.

Fourth quarter adjusted net income was $6.9 million or $0.43 per diluted share, up 43% from the adjusted $0.30 per diluted share in the prior year period. The effective tax rate was 27.7% compared with 53.9% as the prior period included a $0.5 million valuation allowance of a deferred tax asset in a foreign jurisdiction. We expect our income tax rate for the full year 2023 to be approximately 25% to 27%.

Adjusted EBITDA increased 47% to $16.6 million or 12.7% of revenue, which was up 100 basis points from the fourth quarter in 2021. For the full year, adjusted EBITDA was up 31% to $65.5 million, and as a percent of sales was 13%, up 60 basis points. We use adjusted EBITDA as an internal metric and believe it is useful in determining our progress and our operating performance.

Slide 10 and 11 provide an overview of our balance sheet and cash flow. Total debt was approximately $236 million at year-end. We used about $44 million in cash to complete the three acquisitions in the second quarter net of cash acquired, which was largely funded with debt. The debt increase also reflects the new finance lease that we highlighted during the first quarter of 2022 for manufacturing facility expansion to support continued growth. At the end of 2022, debt net of cash was about $205 million or 48.7% of net debt to capitalization. Our bank leverage ratio was 3.42 times.

During 2022, we generated $5.6 million of cash from operations, a decrease from the prior year due to high levels of inventory and working capital timing. Based on our cash flow projections, we expect to deliver over time in a manner that aligns with and is consistent with our historical performance, and you can see the strong cash generation during the recent fourth quarter. Full year capital expenditures were $15.9 million and were largely focused on new customer projects. We expect 2023 CapEx to range between $18 million and $23 million.

Inventory turns were 2.9 times in 2022, a slight change from our 2021 performance as our teams continue to manage our inventory to meet increasing customer demand and combat sourcing and lead time challenges. Our DSO saw a bump up to 54 days, largely due to timing and mix of customers.

With that, I'll now turn the call back over to Dick.

Dick Warzala: Thank you, Mike. We enter 2023 with momentum on our side, as we continue to have a solid pipeline of opportunities and are encouraged with order levels from each of our target end markets. As highlighted on **slide 12**, fourth quarter orders of $145.6 million drove a book-to-bill ratio of 1.1 times and record backlog of more than $330 million at year end. The rollout order level was broad based and reflects a noted FX headwind of $12.5 million. Our backlog was up 32% over the prior year period and 6% sequentially. The time to convert the majority of backlog to sales is within the next nine months. While there are still some components with long lead times, generally speaking, we are seeing some stability within our supply chain.

Turning to **slide 13** for our outlook. While the heightened level of macroeconomic uncertainty remains, we believe we are in a position of strength and are confident we can continue to execute our strategy by capitalizing on the many growth opportunities and positive underlying demand trends within our targeted markets. Specifically, demand is expected to continue at relatively strong current levels within our industrial markets, which should continue to benefit from our increased market presence around industrial automation, material handling, and as well as oil and gas tailwinds.

Aerospace & Defense is expected to be bolstered by our recent acquisitions and we anticipate further organic growth given our exposure and program participation. We are anticipating modest growth within our vehicle segments as the market – supply chain continues to improve and demand schedules from our automotive customers continue to firm up for 2023. Our medical market should continue to trend away from the pandemic-related sales to a more normalized sales environment, focused on the higher margin surgical-related end markets.

Having gained greater traction in many of our served markets, we are creating a larger, more robust base of business to support continuous and sustainable organic growth well into the future. While fostering organic growth remains an emphasis, strategic acquisitions are an equally important element of our overall growth strategy over the long term. We are currently focused on maximizing our recent acquisitions, driving cash conversion and paying down debt while still grooming potential opportunities and building out our M&A pipeline.

Lastly, we believe we can continue to enhance our margin profile as we demonstrated this last year by further expanding our multi-technology solution opportunities and driving continuous improvement through utilization of AST, our lean toolkit, in all aspects of our business.

With that, operator, let's open the line for questions.

Question & Answer

Operator: [Operator instructions.] Thank you. We will now be conducting a question-and-answer session. Our first question comes from the line of Greg Palm with Craig-Hallum. Please proceed with your questions.

Greg Palm: Thanks. Morning, everyone. I wanted to just start a little bit about the quarterly results. Revenue is down a little bit sequentially, but maybe not as much as some of the past years. And I think what really stood out is bookings were actually up quite a bit sequentially. So I'm just kind of curious if you've noticed any change in behavior at your customers, kind of what are you hearing and seeing in terms of expectations for the next year?

Dick Warzala: I'll start, then I'll let Mike add some more color to it. But I would say to you, Greg, one of the reasons that – you're correct, and as we've always said, fourth quarter is always a crapshoot. We're not sure what's going to happen based upon prior years of holding back from receiving orders, making inventory levels look better for year-end for many of our customers and delaying things until the new year starts.

So I would say, given the broader background and diversity of our company now, that's been minimized to a certain extent or it's been reduced to a certain extent. And I would think that

that's something that we should expect going forward that we may not see that big seasonal dip like we had in the past based on a few suppliers. In addition to that, you're correct, we did see strong demand going into next year and no drop off. And maybe Mike wants to add some color to that.

Mike Leach: Yeah. I think the only thing I would add to what Dick said was that they were operating with a very strong backlog. And with some improvement in supply chain, right, that's allowing us to dig into that backlog and ship freight. So I think some of the seasonality that we expected to see in Q4 may have been partially offset by ability to draw from the backlog as well from a sales perspective.

Greg Palm: Okay. Yes. Makes sense. Any notable change in order patterns and sentiment on a year-to-date basis?

Mike Leach: We've been shocked by the strength of the demand, Greg. It varies little bit month by month heading into Q1. We haven't really seen any change in the order patterns to a significant degree. I think larger macroeconomic events are at play, so maybe a little weakness from the European side in terms of forward looking. But, generally speaking, as we've stated pretty much all year long, it's just a little surprising the level of demand and support out there.

Greg Palm: Yes. Okay. And then just sticking with the quarter, one more question, gross margin did dip down a little bit sequentially relative to Q3, even Q2 levels. And I am just curious if there was anything that stood out, mix, anything else that you want to point out?

Mike Leach: No. Again, I think that's part of the seasonality from a sequential standpoint, right? We're not leveraging as much volume, if you will. And then, our own holiday type shutdowns, right, you're not pushing as much volume through your shop floor and generating absorption, if you will, to boost that – pulling into inventory. I think that is not unexpected. I will say it is still a constant battle with inflationary cost pressures. I think the good team over the years has done – good teams done a good job raising selling prices to offset what we've seen from a cost perspective, but it's a constant battle and it has ebbs and flows.

Greg Palm: Got it. Okay. I will leave it there. Thanks.

Dick Warzala: Thanks, Greg.

Operator: Thank you. Our next question is coming from the line of Ted Jackson with Northland Securities. Please proceed with your questions.

Ted Jackson: Thank you. My congratulations on a very solid quarter.

Dick Warzala: Thanks, Ted.

Ted Jackson: I got a few questions. I'd like to start just sort of on the top line. One, maybe we could talk a little bit about aerospace and defense. And I guess what I wanted to like to talk to is, I know you saw strength and you continue to see strength. We obviously have a war going on in Europe with Ukraine. There was an interesting article in The Journal several weeks ago kind of talking about there has not been, as it's called, a ramp in defense orders relative to maybe expectations going through 2022. Really, the finger that they pointed at – or they pointed out was just a lack of production capacity and supply issues because these manufacturing lines are really not scaled to handle the demand that might be out there. And so with that kind of backdrop of color, I wonder if you could maybe talk about what you're seeing in the defense market and kind of sort of walk us through how you see that business performing as we go through 2023 and beyond.

Dick Warzala: Sure. Well, I would say to you, Ted, that the article is pretty accurate from the standpoint of while there has been inquiries to – and quoting and looking at higher volumes, we have yet to see those higher volumes come through with actual orders for an assigned delivery date. I think there's certainly – the front-end work is being done to determine what's available, what they can get in what timing. And the issue that we would have when you look at it from our sales is that we're just one element of what's required in the system. So even though we could deliver, all right, if everyone can't deliver, they're going to reshuffle and reschedule because it doesn't make any sense to have three quarters of a device sitting there and not being able to ship it. So, we have seen some shuffling.

What's interesting, we've seen some shuffling that says, okay, what can we get on a current basis to handle some real, let's call it, more urgent requirements which actually resulted in pushing other equipment out so that they could free up capacity. Again, not from our standpoint, from the complete supply chain that's required to fulfill the requirements of whatever that device might be. So I would say the article is quite accurate. We have not seen – we can be assured that inventories are being depleted and the demand is there, and at some point in time here, they will have to be replenished.

Ted Jackson: Yes. So it sounds like it's clearly a bullish driver in terms of the business. But given some of the issues, maybe it'll be a little lumpier in the near term as these kind of production issues work themselves through.

Dick Warzala: Correct.

Ted Jackson: Next one just on the top line is, spinning through the 10-K, it kind of looks like Polaris was about 11% of revenue, call it, $55 million. You've done a really nice job in terms of trying to sort of diversify, bring down the exposure to Polaris. But, I mean, it's still a pretty important customer. And if you listen to their call, they clearly expressed some concerns with regards to the outlook in 2023. And as I recall, I think they were even talking about the side-by-side market. And I wanted to sort of, with that as a backdrop, square against your view in terms of modest growth in vehicle, like where – if Polaris is really, let's just say, not really an avenue of growth and maybe I'm wrong on that, where are the avenues of growth for vehicle that's going allow you to push that to a modest growth level?

Dick Warzala: Yes. Sure. I can answer that. And I think you were absolutely correct, I mean, our business with Polaris has remained strong and it has been through diversification in other markets and the overall growth of the company that's been the reason why the overall percentage of sales as part of Allied have gone down. So that is definitely was something that we wanted to do, and we did not want to – obviously, we don't want to see the volume within Polaris get reduced.

I would say to you that, that whole market had some really boom years during COVID, and whether or not there's a settling out and demand will go down, I mean, Polaris is much closer to the end market than we are. But we sell to multiple people in that business and I think it's probably something we should expect. But as you noted, it won't have as huge of an impact given the level of sales and diversification of the customer base that we have as it would have in the future.

So other – the other vehicle markets that we're in, we are seeing some strengths, and we've had some major programs that we've invested in, in the past, whether it's construction vehicles and buses or automotive or trucks and so forth. So we have some good emerging applications that we've been getting designed in on the last several years that are starting to take off and it's all involved in electrification and we're in pretty strong position to benefit from that.

We also have those contracts that we booked. We don't have it in our backlog. We didn't record it as a booking. We call it unscheduled backlog. So that's not in our backlog for automotive, and that we do see that, that is – schedules are firming up and getting stronger. But that industry still has some challenges with certain components which are keeping lead times long. But we do expect, from our standpoint, based upon schedules, that we'll see an increase there. So a little offset – definitely an offset to what we might see on from utility sports market.

And I would like to add, when you mentioned ATV and side-by-side, think of ATV as more of the residential type of product, whereas the side-by-sides are used in many different applications, industrial, commercial, so forth.

Ted Jackson: You kind of prompted another question with regards to the vehicle section of your business. Could you have some kind of sense in terms of what your exposure to like the construction equipment, the heavy equipment business is? Because I will tell you that, if you listen to the players in that world, there's a lot of backlog for them to work through. So, I mean, I could just kind of – I mean, the exposure there, I can really see how that could be a benefit for you in that business. And just maybe some color around how much of your vehicle business comes from just that segment of the market, if you would.

Dick Warzala: Yes. Again, the whole vehicle market is, for us, it's quite diversified other than the large player. Let's just put it this way, I mean, saying the large piece of it, 50% of the business coming from the powersports market and the rest coming from all these other submarkets that we have. So we do have exposure in construction, agricultural, which has been strong and we think should continue to be strong. Trucks, it has a lot to do with some of the programs that we've worked on in the past that are coming to fruition. So, we do see and there is a backlog, there are opportunities that we do see into the future, some opportunities for that to grow for us.

Ted Jackson: Okay. I'm going to – can I just ask one more? I have a whole list, but I'm going to get out of line because there's these other people that want to talk. On the backlog, you made a nice pickup in backlog. It is healthy. I'm curious when I look at that, like, it was I think $330 million backlog number, we're so far into this quarter, how much of that backlog is scheduled to go out beyond the first quarter?

Dick Warzala: For us, we're already two thirds of the way into the first quarter. So as we're looking at it, we're going to look at the whole backlog relative to the rest.

Ted Jackson: See, I am not. For that, I'm still stuck in December.

Dick Warzala: I got you. I don't have the number off the top of my head. Mike, you might want to...

Michael Leach: No, but to characterize the backlog, I would say it is – again, because lead times have gotten stretched over the last couple of years, I would characterize the backlog as predominantly the next six to nine months. So, for Q3 I'm not sure I would do that But again...

Dick Warzala: For 2.

Michael Leach: Yes. I am sorry. Yes.

Dick Warzala: Yes. I mean, as we said, we've seen continued strength in incoming orders so the backlog continues to remain strong. And, I would say to you that I don't have the exact number. We know we're going to get asked that in the future, we'll have to prepare. But I think it's kind of we don't – obviously, we don't get into forward-looking and I know it's – so we said two thirds of the way through, so we kind of know where we are and...

Michael Leach: Yes. And I would suggest that we're not looking for fill for the first quarter, right, until we know it's...

Dick Warzala: Correct. Correct.

Ted Jackson: Well, that is actually – that is very helpful. So I do have more questions but I'm going to step out of the queue and I'll come back in a – at a later time. Thanks very much.

Operator: Thank you. Our next question is coming from the line of Brett Kearney with Gabelli Funds. Please proceed with your question.

Brett Kearney: Hi, guys. Good morning. Thanks for taking my question.

Dick Warzala: Good morning, Brett.

Michael Leach: Good morning.

Brett Kearney: Want to touch on the really strong growth you are seeing within your industrial end market. Obviously, there's concerns out there on kind of how the broader macro environment could unfold, but we're also hearing from folks on just kind of the historic reindustrialization that's taking place in the US, in part supported by some of the federal spending streams, some of the recent, Inflation Reduction Act, CHIPS and Science Act, IIJA. I'm sure it's hard for you guys to parse out where exactly the orders are coming from. But within your industrial market, what's your sense in talking to some of your customers and channel partners, some of the activity and applications that your solutions are going into related to kind of industrial plant build-out, particularly in North America?

Dick Warzala: Yes. That is a great question. Incredible demand. That is really what is out there. And it's more about being able to fulfill the requirements. So I would mention that one of our larger acquisitions serve that space to a great extent and we're not seeing any slowdown there. A matter of fact, I mean, there's the backlog that sits out there that we'll be working on into the future. But I would just say to you that I agree a hundred percent.

A number of factors come into play, industrialization in the US. But, I mean, we are a global supplier, so we see it all over the world, and the labor constraints have not let up. They were pre-COVID, and they're still there today. So you see innovation becoming a part of everybody's thought process here in order to be able to minimize the labor constraints that they're seeing. So, I agree. There's some strength well out into the future here and the only thing that's going to slow it down is the ability for the suppliers to be able to meet the demand in the timeframe that they're looking for.

Brett Kearney: Excellent. Thanks so much, Dick.

Dick Warzala: Thank you, Brett.

Operator: Thank you. Our next question is coming from the line of Gerry Sweeney with ROTH Capital. Please proceed with your questions.

Gerard Sweeney: Good morning, Dick and Mike. Thanks for taking my call.

Dick Warzala: Good morning, Gerry.

Gerard Sweeney: Just a couple quick follow-up questions. One, you talked a little bit about inflation, constant battle. Just curious where you are on both material costs and labor costs sort of pushing those costs through. Are you up-to-date, still trailing a little bit? And is the market receptive to more catch-up pricing if necessary?

Dick Warzala: I will let Mike start. Maybe I'll add to whatever he says at this point.

Michael Leach: Again, I said there's ebbs and flows when we talked about it earlier, Gerry, right? And I would say late last year I would call us caught up in the sense that where we had contractual agreements which automatically allowed us to pass things through, as I think we've talked in the past, it's usually about a three to six-month lag in all that booking process being pushed through and seeing it in results. And then the teams did a really good job passing through purchase price variances and the like. Again, the debate over here is classically where we do not – it's difficult to do that with any margin on it, right? It's a zero base pass through to a large degree, which doesn't help your gross margins as well.

My only cautionary note was that, hey, in all reports you're seeing it as well, you just continue to see prices increase. So, at some point in time, we're going to come to a crossroads here where demand and inflation kind of battle each other here and we're not going to be able to pass them through as easily. So it is – like I said, it is just a constant battle. So I wouldn't say that we're flushed with the current market in the sense that we continue to see significant increases here in the last three months. But it is moderated to some extent. They're not – we're not seeing the massive jump.

Gerard Sweeney: Yes. Got you. Less velocity I guess or – yes. I got it. Or the gap is narrowed.

Dick Warzala: Yes. And I'd say I agree exactly with what Mike said from the standpoint of we would have expected to start to see some slowing, but we haven't. And I do agree that at some point, I mean, as the prices keep going up and up and up and get – the pass through and who's paying and – there is going to be pushback. And so the overall inflation rate comes into play and that impacts the labor rates which – certainly commodities are easy. When I say easy, if you're contractually bound by commodity price increases, you just – whether it's plus or minus, you're going back to the contract, but it's these labor cost increases too that are in contracts.

And the days of where the expected cost-outs in the future, signing up for long-term contracts where cost-outs are occurring, in the volatile market we are in today, I think anybody would be foolish to do that. It is hard to control these, who can predict what is going to happen there? So it's not just a battle that you're having to get, let's call it, constant challenge to make sure that you're staying whole, but you've got to be careful that you're not putting yourself in a rough position in the future because the norms of cost-outs and some efficiency improvements are not necessarily achievable. So that is the other piece. It is upfront. You got to be careful. And we're very aware of that and watching that, with what we're doing now and certainly in contracts and certainly in new quotes.

Gerard Sweeney: Got it. Staying with just the margins per se, obviously, on a full-year basis, I believe it was a record. But – and I'm not sure how much detail you want to go into this, but I'm just curious, one of the main themes is moving from component sales to solution sales, and it's been an ongoing, I guess, progression and will continue to be a progression. But any way you can sort of bracket out how much those sales have changed over any given period of time, one three, five years, type of thing, just open that up a little bit in terms of visibility?

Dick Warzala: Yes. Well, we've discussed this in multiple calls where the question is, how have we transitioned the business from component sales to solution sales? And we said that if you go back, let's call it, five years, what was the percentage of our sales that we would call components and what we call solutions today? We also mentioned in previous calls that it's just a little more difficult because what we would have considered a solution sale back then, that is, let's say, adding gearing to a motor, today we consider that more of a component sale. That's just a normal sale versus adding electronics, adding some kind of feedback and a more sophisticated software-based solution and so forth.

But to answer your question, I mean, we have created a team in the company. We are getting some very, very interesting projects that we're working on in programs, we are seeing that the content that we're putting in and – we had a discussion at our board meeting yesterday about, what did we do in the market? We started selling integrated drives with motors many years ago. It was part of our focus. And we started adding up the number of opportunities that we have won as part of this solution-based selling. It's a significant portion of our new business. And that is the thing. So we're not – we have component business that will be here forever and we'll be saying, that's never going to be shifted out. But there is definitely a shift and a trend where we're doing more and more system-based solutions with integrated solutions. And that is the opportunity.

But we go beyond just that now, too, where the company has transitioned, where it was, like, okay, you've got a motor, let's add a drive to it. Well, okay. But today, in some of the wins that we've had have been more about really sophisticated modeling and simulation that increase our speed of play, get us to the market faster, and are really meeting the real needs and requirements of the customer, not just what they think they need, okay? So that's another change and we invested in the group that we called – we started out by saying global electronics team, it now expanded at the global engineering team where we take on these major programs, we staff them appropriately to win on big projects that are system-based solutions. And it continues to grow and go beyond the level of what we have had in the past.

So I would hesitate to just – if I come back, my numbers would be a little bit inaccurate and even their classifications would be. But I can tell you that more than 50%, I would say – certainly in the – with the global team, it's almost 100% is in the system sale opportunity where multiple technologies being applied to a higher level solution. And, yes, the margins are higher. And I'll caution us on that, too, because when we start getting into these larger, more sophisticated solutions sales, there's software being developed, there's a lot of electronics, and you're measuring margins based upon content of material and so forth while it's really your investment that went into these products that were – could be millions of dollars that have to be amortized over – more like a software business and/or a high-end electronics product. So that's where we're headed and that's what we see more and more, and well on its way.

Gerard Sweeney: Got it. I appreciate it. That is actually very helpful. Just for me, the qualitative aspect to understanding where you are. So, I appreciate it. Thank you.

Dick Warzala: Okay. Thank you, Gerry.

Operator: Thank you. Our next question is coming from the line of Ted Jackson with Northland Securities. Please proceed with your questions.

Ted Jackson: Thanks. So, welcoming myself back. So I wanted to circle back and have a quick discussion again back on the top line with regards to the distribution business. And I know it's not a major driver of top line performance, but I know it's an area that you have been focused on in terms of growth, and you really are seeing some nice growth there. Can you give a little color on kind of what actions and efforts that you've made that have driven that growth and kind of what are your plans going forward? How are you going to continue to drive that revenue line?

Dick Warzala: Sure. I would say to you, Ted, that conscious decision for one of our acquisitions which sells 100% through the distribution channel. What's interesting is we don't report it through the distribution channel because we know it's the end markets that they're serving so we're reporting it into the end market. So our distribution sales and business has definitely increased, and we are seeing the opportunity and we're working on grooming some, let's call it, some opportunities that can go through the channel that we're not participating in today.

So we've been successful in increasing the amount of our business that's growing through the channel. We're not reporting it that way, but it's growing faster than what we're showing and we are looking at other ways we can leverage the channel that we currently have to increase our volume into it. So, it is important to us. It has a reach that – because of the broad customer base and other products that are going into it, it's a real opportunity for us to increase and expand our business from a channel standpoint.

Ted Jackson: But is that growth coming as you're bringing more of your products into existing distribution partners or do you see your future growth being driven by expanding your distributions partners in terms of the numbers?

Dick Warzala: Yes. Great question. Yes. Great question. I would say to you to start with, it's looking to leverage the distribution partners that we have today, expand our reach with them given our existing products. That's the best way for us to, I'll call it, test the market, test the waters about do we have the right solution/product mix that you can successfully take through the channel. So that's the best opportunity for us out of the chute. Certainly, there is an opportunity to grow with additional distribution channels. But I think our focus initially – not I think, I know, our focus initially will be looking forward to seeing what the opportunity is for us to bring more product into the existing channel.

Ted Jackson: Okay. And then just two last questions, really, kind of a little bit more around the guidance and such. One is on the CapEx guidance for 2023. There's a little bit more than I guess I would say than I had in my model, doesn't mean that's the end-all, you know I don't how to run your business. But I wondered if perhaps you could maybe talk a little bit about some of the investments that you're making in the business and what that money's being invested for, if possible. And then just kind of on a side note, on the income statement, your business development expense, if you could just give a little guide with regards to how you see that in 2023. Those are my last two. Thank you.

Dick Warzala: I will let Mike take those.

Michael Leach: Look, the CapEx has a little ebb and flow in the sense that, right, we didn't probably execute all the projects we had lined out for 2022 simply because of supply chain, delivery of product from vendors to allow us to complete projects. So I'll tell you, you'll see probably a little bit lighter on the 2022 side, it was on the low end of our outlook and some of that flowing into 2023. And also obviously the additional businesses being added to the mix were not capital intensive, right, they add to that as well.

Most of the CapEx that we spend throughout the year, I would say 80% plus, is growth and customer project-driven, right, so it's supporting a new product line with a line in one of our factories, adding tooling, adding capacity to our equipment to meet growing future demands on existing programs. I would say that that's the nature of the majority of what we spend from a maintenance CapEx standpoint, safety CapEx and the like, where again, I think we've talked before, we don't have significant expenses, most of everything we do is growth supported.

Dick Warzala: Well, I'll add to that then I'll let Mike jump on the next section here. So yes, what he's covered and he mentioned some of the things got delayed for supply chain and that's correct. There's other reasons, too, that occurred. I mean, delayed program launches, one. So in addition to supply chain, not necessarily anything that we were doing, but were one element of an overall solution. And if they can't get everything that they need, then they delay the program. So there were some delayed program launches which then delayed the capital investment to go into it.

Another item that I think we see is that we've had some success, some early on success, with some new opportunities we've been working on and they're starting to ramp. And as they're ramping, we're finding that they're expanding as well. So, we've allowed in there some program expansion beyond the original estimates that do require capital investments because that's one of the things that we looked at and we've mentioned that efficiencies and costs and so forth and quality, all of that comes into play. So those will expand, but they'll expand with additional revenue streams to support it.

Another thing that I'll mention to you that has caused some additional and some expected additional spending is localization of manufacturing. And we've come up with some standardization of certain product lines that we're investing in that are multinational. And our belief is that we need to be close to our customers, so that there's been some, I'll call it, duplication, but duplication from the standpoint of there's enough demand in, let's call it, Europe and enough demand in North America that we may be putting in redundant systems in both. And some of our planning has been around that. And they are sized appropriately. So it may not be one large capital expansion in one geographic region, it may be multiple ones.

And there's reasons that – the payback on those come back very quick. And we had a program that we're ramping up right now. We looked at it and said, okay, we've got a great facility down in Reynosa, Mexico, highly automated, highly sophisticated, and we can produce the product that we needed. But that's – the end customer is going into Europe, and then we started looking at our internal transportation cost then we realized that we could – with a little over a year payback, duplicate some of the capital and put it in Europe and eliminate those transportation costs. And I hate to say it, but transportation costs always are going in at best method and everything's ideal and then something happens and you're air freighting things in that could be quite heavy and cause some problems so some of that's going in.

And again, last thing I'll mention to you is efficiencies and upgrading because of labor constraints. And one of our facilities does another fantastic job, which is looking at it and saying I need six more full time equivalents in production. I cannot get them. So I have to upgrade what I'm doing today and automate what I'm doing today to generate more efficiency so I no longer have a need for six more full time equivalents. I can get the same output by improving the capital equipment that we're using to produce the product. So those are other reasons why, and I think those will continue and they're definitely good and strengthen our company for the future. So more color to that CapEx, but now I'll turn it back over to Mike.

Michael Leach: Yes. So on the business development cost, two things I would say drive that, right, it's our M&A activity and then activity relative to either expansion or rationalization of some of our facilities. So again, those activities from a lean AST toolset will be ongoing. Again, that's the lesser side of things from a cost standpoint, but we're always looking to optimize our footprint and a good example is we recently changed locations of one of our North American facilities to accommodate growth into a much larger and a much more advanced facility that should be very beneficial going forward, right? But, the duplicative costs and things like that of making moves like that are in there.

But again, what drives the business development credit is M&A activity. As we've talked before, we're focused at the moment on paying down debt. But we are always grooming opportunities and the timing of such opportunities are not always aligned with some of those priorities. So, we will continue down that path. And depending on how those opportunities develop and what our means to fund them are, it'll drive the M&A expenditures.

Ted Jackson: Kind of let me rephrase my question then. So, since I would imagine that anyone that covers you doesn't have any M&A built into their forecasts, and so if we were to assume that you had no M&A, what would be a sort of a steady state of that line item within your P&L? And why I ask is because we do actually, for pro forma, back it out. And since it is really not something that's an operational expense that we see, it's kind of hard to model without a little bit of guidance. You know like a $400,000 a year kind of steady state, absent any kind of M&A as you kind of work towards constant reevaluation and efficiency stuff, $500,000 a year. Do you know what I mean? It's like, just kind of some kind of bracket might be helpful at least.

Dick Warzala: Yes. Let us get back to you on that, Ted. I think rather than just shooting a number to you right now, I mean, we could do a little bit of work here and come up with something that would be more representative of what we really think it's going to be in the future here. I think we're just looking at, okay, here's what we did, so if we say, instead of doing $600,000, we're going to do $200,000, we're going to do $300,000, whatever. Let's get back to you with a number that you could plug into your model, I think it'd be more accurate.

Ted Jackson: Okay. That is good. Hey, thanks for taking all my questions. And again, congratulations on a very nice quarter.

Dick Warzala: Thank you.

Operator: Thank you. There are no further questions at this time. I'd now like to turn the call back over to management for any closing comments.

Dick Warzala: Well, thank you, everyone, for joining us on today's call and for your interest in Allied Motion. For those of you that are interested, we will be participating in person at the ROTH Conference in Dana Point, California, next week on Monday, March 13. Otherwise, as always, please feel free to reach out to us at any time, we look forward to talking to you, with all of you again, after our first quarter 2023 results. Thank you for your participation and have a great day.

Operator: Thank you. This does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Enjoy the rest of your day.