**Operator**: Greetings, ladies and gentlemen, and welcome to the Allied Motion Technologies First Quarter Fiscal 2021 Financial Results call. [Operator Instructions] As a reminder, this conference is being recorded. At this time, I would now like to introduce your host, Craig Mychajluk, Investor Relations. Thank you, Craig. You may begin.

**Craig Mychajluk**: 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 first quarter 2021 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. On the website, you'll also find slides that accompany today's discussion. If you are reviewing those slides, please turn to **Slide 2** for the safe harbor statement.

As you are aware, we may make some 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 and 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'll 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've provided reconciliations 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?

**Dick Warzala**: Thank you, Craig, and welcome, everyone. After a challenging 2020, we kicked off the year with record revenue of approximately $102 million, which was up 10% over last year’s first quarter, driven by strong demand in our Medical and Vehicle markets. Medical was up 60% due to residual demand from the pandemic and a recovery in other end markets. We also benefited from a full quarter of Dynamic Controls, which we acquired in March last year. The 23% increase in Vehicle reflects continued significant demand in powersports.

While the pandemic impacted our Industrial and A&D end markets, we have continued to pursue the execution of our strategy through the flexible and committed efforts of our team. On a positive note, we are seeing encouraging signs of improvement overall as demonstrated by our record level of orders and backlog in the quarter.

While we continue to experience some headwinds on the gross margin line, we did achieve 29.6%, which was up 170 basis points from the sequential fourth quarter as we leveraged our higher volume.

Net income for the quarter increased to nearly $12 million, which included a benefit from a discrete tax item that Mike will detail. Absent the benefit, our adjusted net income grew approximately 7% to $4.6 million.

Our effective execution and disciplined cash management drove solid operating cash generation of $5.6 million during the quarter, a period in which we typically see cash consumption. This enabled us to continue to advance organic growth initiatives and further our momentum while the economy returns to a more normalized state.

We are confident in our initiatives and the strength of our business model, and we believe we are efficiently managing our inventory levels even as we work to meet increasing customer demand.

Before I turn it over to Mike, let me remind you that the 3-for-2 stock split we announced in March took effect on April 30th. As we stated before, we see this action as a reflection of our outlook for continued growth and confidence in driving long-term shareholder value. We also believe this will provide greater liquidity of the Company's shares and assist in expanding our investor base.

We announced our quarterly dividend yesterday of $0.025 per share. This represents a 25% increase on a post-split basis from the previous quarterly dividend.

Also, yesterday, we announced that Linda Duch and Bud Laber retired from their positions as Directors and did not stand for re-election to the Board after each of their current terms expired. In their place, Nicole Tzetzo and Steven Finch were elected to Allied's Board. We are most thankful for Linda and Bud's contributions to our Board, and we are pleased to welcome Nicole and Steven to the Allied team. I am confident that their respective skills are an excellent fit and that their contributions and guidance will be very meaningful as we continue to execute our One Allied strategy and create additional value for all stakeholders of our Company.

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

**Mike Leach**: Thank you, Dick. As a reminder, all share and per share information in our earnings release and slides reflect the 3-for-2 stock split.

Starting on **Slide 4**, we provide some detail regarding our top line. First quarter revenue hit a record level at $101.7 million and was up $9.3 million, or 10%, despite the continued impact of the pandemic on some of our end markets. The favorable impact of foreign currency exchange rate fluctuations on revenue was $4.3 million.

Sales to U.S. customers were 51%, down from 53% in the prior-year period, with the balance of sales to customers primarily in Europe, Canada and Asia-Pacific. The slight shift in geographic mix reflects the addition of Dynamic Controls.

**Slide 5** shows the change in our revenue mix by market and the change in revenue by market for the trailing twelve-month period. Overall, broadening the scope and diversification of our various end markets has added some resilience to our business as demonstrated by the 2% increase in total TTM revenue. The Medical market continued to perform very well and was up more than 70% and includes the Dynamic Controls acquisition.

The economic impact of the COVID-19 pandemic was reflected in the reduced demand or order deferrals within Industrial and A&D. And, while Vehicle has seen tremendous demand the last two quarters, that market was still down on a trailing twelve months basis given the significant headwinds from the start of the pandemic last year.

As depicted on **Slide 6**, our gross profits were up $2.0 million, or 7%, to $30.1 million, reflecting the higher volume. First quarter gross margin was 29.6% compared with 30.4% in the prior-year period. The change reflects approximately 35 basis points of incremental costs incurred due to a tight supply chain and the decision to incur those costs to ensure timely deliveries to customers. There was also higher raw material costs and unfavorable mix that impacted the margin, given more mechanical and component medical and vehicle sales during the period.

We believe we are managing the impact of supply chain constraints, tariffs and duties relatively well and are working hard to offset those impacts. Ultimately, we expect some lingering headwinds to continue for the near-term, but, as we have stated, we do anticipate seeing margins grow over the long-term.

Moving on to **Slide 7**, our operating income for the quarter was $6.6 million, or 6.5% of total sales. Operating costs as a percent of revenue were unchanged at 23.1% as higher volume and cost control offset increased incentive compensation, which was largely in the G&A line. However, the flow through impact from the gross margin decline was reflected in the quarter-over-quarter operating margin change.

Turning to **Slide 8**, you can see our bottom-line and Adjusted EBITDA results. As Dick mentioned, we recorded a discrete tax benefit of $7.4 million relating to new legislation enacted in New Zealand, which will allow us to utilize NOLs obtained from the acquisition last year. As a result, first quarter net income was $11.9 million, or $0.83 per diluted share, compared with $4.0 million, or $0.28 per diluted share, in the prior-year period. Absent the tax benefit, the effective tax rate for the first quarter was 22.4%. We expect our income tax rate for the remaining quarters of 2021 to range between 26% to 28%.

Adjusted EBITDA for the quarter was $12.0 million, or 11.8% of sales, compared with $11.5 million, or 12.5% of sales, in the year ago quarter. We use adjusted EBITDA as an internal metric and believe it is useful in determining our progress and operating performance.

**Slides 9 and 10** provide an overview of our balance sheet and cash flow. At quarter end, total debt was $119.9 million, slightly down from year-end 2020. Debt, net of cash, was approximately $95 million, and net debt to net capitalization was 38.3%, down 210 basis points from year-end.

Our bank leverage ratio was 2.71 times at quarter end. While we are comfortable at this level, we will continue to focus on paying down debt to reload for future acquisitions.

We generated solid cash flow from operations of $5.6 million in the first quarter, up from a use of cash of $3.0 million in the prior-year period. First quarter CapEx was $3.1 million and largely focused on new customer projects as well as ERP implementations. We expect our fiscal 2021 CapEx to range between $12 million and $15 million.

Inventory turns were 4.1 times, up from 3.8 times at December 2020. As a reminder, there are a number of critical components that have substantial lead times providing sourcing challenges, particularly in the pandemic environment. However, our teams have been managing our inventory levels well even as we work to meet increasing customer demand. Lastly, our DSO edged up to 51 days in the quarter.

Given our current cash and available liquidity, as well as our ability to rapidly adjust to changes in the economy, we believe we are in a position of strength and can continue to capitalize on opportunities as we emerge from the pandemic.

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

**Dick Warzala**: Thank you, Mike. **Slide 11** highlights our record orders and backlog. Since the low point during the onset of the pandemic, we have achieved three straight quarters of order growth, reaching a record level of approximately $115 million in the first quarter. This represents a 23% increase over the first quarter of 2020. All of our major market channels are contributing, including within Industrial and A&D during the first quarter.

Backlog increased 8% over the sequential fourth quarter and was up 14% over last year's first quarter to a record $152 million. The majority of our backlog is expected to convert to sales over the next three to six months.

Included in the current backlog was approximately $5 million of the previously announced $325 million of Vehicle market awards. As a reminder, we are not expecting much of a top line lift from these awards this year as we offset the runoff of some legacy programs. At this time, we are expecting all of the announced awards to concurrently be at full rate of production by 2024.

From a market perspective, as shown on **Slide 12**, we expect demand from our Medical market to remain strong with the ongoing recovery in elective surgeries as well as some residual demand from the pandemic. However, that growth is expected to moderate somewhat as we now fully lap the Dynamic Controls acquisition.

Within our Vehicle markets, we expect powersports demand to remain at heightened levels and our automotive market demand is also progressing in the right direction.

A&D and Industrial markets are experiencing improving market conditions as demonstrated by increased quoting and orders, notably within our pumps and oil and gas markets.

While there are signs that the economic recovery for 2021 is underway, we will continue to focus on the areas of our business that we can control. We are in a strong operational and financial position, and we are confident that the actions we have taken will allow our organization to continue to advance our strategy and drive continuous improvement in all areas of our business.

Our strong cash generation will enable us to pay down debt, invest in organic growth opportunities and continue to pursue strategic acquisitions, which remains an important element of our overall growth and profitability strategy.

We demonstrated strong execution by generating record levels of revenue, orders and backlog, and we have further developed our One Allied strategy. For all these reasons, we have a high level of confidence and expect that we can meaningfully improve our margin profile over time.

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

**Operator**: [Operator Instructions] Our first question is from Greg Palm with Craig-Hallum.

**Greg Palm**: Congrats on the results. To start, it would be helpful to get a little bit more commentary on the quarter itself. What surprised you from an end market standpoint? I would be curious to see if there are any changes in the first part of Q2 in terms of demand levels versus what you saw in Q1.

**Dick Warzala**: Sure, Greg. We had a strong order intake in the fourth quarter of last year as we have reported; therefore, there really weren't any surprises in the first quarter. As we're looking at what the incoming orders were and knowing what was available for us to ship in the first quarter, obviously, there are continued challenges in the supply chain, which is a day-to-day battle in many areas, but we seem to continue to be able to navigate those.

With regard to the continuation, we do see things continuing to improve. We're optimistic that the recovery is well underway and that, throughout the year, we will see things improving essentially in all markets.

**Greg Palm**: Good to hear. As we think about 2021, I think it's pretty clear that revenue this year is going to surpass what you did last year. I'm curious if you would characterize this as a year of operating leverage. I know you're incurring some additional investments, but when you look at operating margin or EBITDA margin, would you expect to see some leverage this year versus what you saw last year?

**Mike Leach**: Greg, I think we're heading in the right direction with regard to that. There are some unique challenges and headwinds that we're facing, particularly on the supply chain side that is impacting our gross margins. Certainly, where we are today result-wise compared with where we were last year, we highlighted things like incentive compensation and I'll call it a slow return to travel and things like that.

Certainly, we've said there's going to be operating margin leverage to be had. I think it will be a slow crescendo throughout the year compared with the more impactful leverage that we'll see in periods beyond this year.

**Greg Palm**: Makes sense. For several years, I think you've talked about new customers and some of the new application opportunities. One that always seemed to come up was around your focus on this kind of automation, robotics, autonomous mobility space. These seemed to be the big themes that are really building post pandemic, I was curious if you could provide a little bit more color on how you're positioned there and what you see in terms of opportunities in that market.

**Dick Warzala**: Sure. There's tremendous activity out there. We also see some acquisitions occurring in that space and a great deal of excitement about what the opportunities are in the future to improve productivity and so forth.

We are involved at the engineering level. Our products align very nicely with their small compact packages and high performance. When you're seeing that need or that requirement, then we do participate, we are engaged and we are moving forward on several projects.

Also, on the general industrial material handling market, we are an agent in many, many applications with several customers in all geographic regions. We're not alone in that area. It's on everyone's radar. because it definitely is an emerging growth area in the motion control business; however, we feel like we have a good, solid position and it's a great opportunity for us to leverage our solution capability, meaning motors, controls, drives, feedback elements as well as gearing.

**Operator**: Our next question comes from the line of Dick Ryan with Colliers.

**Dick Ryan**: Congratulations on a strong executed quarter. I may have missed, Mike, what you said the impact on the gross margin was from the supply chain challenges in the first quarter,

**Mike Leach**: Specifically addressing things like expedited freight and duties and such, it was about a 35 basis points impact, but that is not including what we're seeing in elevated prices relative to raw materials, commodities and the like. That's a little more difficult to measure.

We've also discussed that we have some protection in our contracts that allow us to pass-through some of those costs, but I would suggest that, that's usually the later quarter too in our ability to pass that along, so certainly, that's a contributor as well.

**Dick Ryan**: So any price increases probably that you may be passing along haven't hit yet?

**Mike Leach**: Yes, it's delayed or slowed. It's starting to occur.

**Dick Ryan**: Dick, on the strong orders in the last couple of quarters, are there any concerns you might have on double ordering for many of your customers?

**Dick Warzala**: Not that we could see, Dick. We're paying close attention to that, and we're looking for anything that's abnormal. We take a conservative approach to what we call an order or actually booking an order and we have to have a firm production date in order to do that. I'm not going to say some of it hasn't occurred as people are getting into the queue with extended lead times, but we don't see anything that's of particular concern at this point in time.

**Dick Ryan**: Great. Now, where do we go from here? Can you give us a little help on how to handicap the rest of the year? I know you don't give specific guidance, but any qualitative commentary on first half, second half, or how we should expect the business to flow?

**Dick Warzala**: There are a couple of things. The question that Greg had asked about what do we see now given the first quarter is over and how are things trending in the second quarter? My comment was that we're seeing continuing improvement, so we're very optimistic that it's definitely turning around nicely.

There are still going to be challenges out there on the supply chain side, and you still have concerns about where there are part shortages and how it could ultimately impact us on a short-term basis. We'll battle through those, and we'll keep working on those, but we are optimistic that the recovery is underway. As I said before, we're seeing it in all areas of business. It's not just one. It's all areas of the business that are improving.

**Dick Ryan**: One last one for me on oil and gas. With the improvements in oil prices, has that business started to recover?

**Dick Warzala**: It has. That's definitely an area that we took a big hit last year with oil and gas, and we are seeing it recover. We are seeing increased activity there, so it's definitely moving forward for us.

**Operator**: [Operator Instructions] Our next question comes from the line of Brett Kearney with Gabelli Funds.

**Brett Kearney**: We're hearing from a lot of companies just how challenging it is on the supply front, and that it is as extreme or as difficult as many executives have ever faced. Given the amount of electronics in some of your solutions, you're all were able to manage through it. I know a lot of the foundation has been laid over the last couple of years, but I was wondering if you could provide any detail, just kind of the processes, on how your teams were able to execute or how you're managing through. Are there any areas on your radar that could exacerbate as we look forward and everyone is trying to work through these bottlenecks?

**Dick Warzala**: You are correct. If we step back a couple of years ago, pre-pandemic, we had made a conscious effort to invest in strategic sourcing, looking at global partners that could supply us in multiple geographic locations. I do feel that some of the groundwork that we laid helped us get through the situation that we saw in the last year, and we're continuing to see now.

With regard to the shortages, you see it everywhere and some of it was pandemic-related, meaning that facilities were closed, so product couldn't be manufactured and couldn't be shipped. That seems to be, for the most part, behind us now that we're not seeing facility closures due to COVID. Workforces are back. It is more where the demand is outstripping the supply side.

When necessary, we reached out and asked our customers to step in and help us if we saw a situation arising where we might have a supply shortage. They have always been there and helped us and, so far, we've been able to get through these.

Are we going to continue to see them? I'm guessing we are. We've gone out. We've looked at lead times. We placed spot buys. We've had to go to the distribution channel in some cases, which Mike talked about, some of the headwinds and costs and so forth. However, in order to keep your customers supplied rather than having certain electronic components coming directly from the manufacturers, we've had to reach into the secondary channels and distribution channels.

Lastly, there's the cooperation that we've received from customers when we identify a specific part or potential part shortage for requalifying and accelerating that process. Typically, it takes quite a bit of time to requalify a new part, but I think everyone's working closely together here now and we're doing accelerated life testing and the customers are jumping in and engaging and improving those requalification of alternatives as we move forward.

I would not say to you that we're out of the woods, we're not, but our team is battling through, and I really have to complement our team on what they've been able to pull off and to make sure that we do keep our customers supplied.

**Operator**: There are no further questions in the queue. I'd like to hand the call back to management for closing remarks.

**Dick Warzala**: Thank you everyone for joining us on today's call and for your interest in Allied Motion. As always, please feel free to reach out to us at any time and we look forward to talking with all of you again after our second quarter 2021 results.  Thank you for your participation, stay safe and have a great day.

**Operator**: Thank you. This does conclude today's conference. You may disconnect your lines at this time, and thank you for your participation.