NFI Group (2021 Q4 Results)

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PRESENTATION

Operator^ Thank you for standing by, and welcome to the NFI Group's Fourth Quarter 2021 Financial Results Call. (Operator Instructions) As a reminder, today's program may be recorded. And now I'd like to introduce your host for today's program, Stephen King, Group Director, Corporate Development and Investor Relations. Please go ahead, sir.

Stephen King^ Thank you, Jonathan. Good morning, everyone, and welcome to NFI Group's Fourth Quarter and Full Year 2021 Results Conference Call. Joining me today are Paul Soubry, President and Chief Executive Officer; Pipasu Soni, Chief Financial Officer; and David White, Executive Vice President, Supply Management. Today's call will be longer than our usual quarterly calls.

We had originally planned on holding an Investor Day in January 2022, but with the onset of the COVID-19 Omicron variant, ongoing and escalating supply chain challenges facing the manufacturing and transportation industries, we felt it was best to delay that event until a later date.

We do think it is important to provide a detailed update to our investors and stakeholders. So today, we will discuss how we finished 2021, provide information on the current record vehicle bid and funding environment, the ongoing supply chain challenges that are impacting operations, and an update on our longer-term outlook.

Since we completed our last Investor Day in January 2021, a significant number of milestones have been achieved both internally and externally that position NFI extremely well for the future.

I'll remind listeners that today's call is being recorded and a replay will be made available shortly. We will be using a presentation that can be found in the Investor section of our website. While we will be moving the slides via the webcast link, we will also call out the slide number as we go through the deck for participants on the phone. (Operator Instructions).

Starting with Slide 2, I will remind everyone that certain information provided on today's call may be forward-looking and based on assumptions and anticipated results that are subject to uncertainties. Should any one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected.

You are advised to review the risk factors found in NFI's press releases and other public filings on SEDAR for more details. We also want to remind listeners that NFI's financial statements are presented in U.S. dollars, the company's functional currency, and all amounts referred to are in U.S. dollars, unless otherwise noted.

On Slide 3, we have included some key terms and definitions referred to in this presentation. Of note, zero-emission buses, or ZEBs, consists of battery electric, hydrogen fuel cell electric and trolley electric buses. Equivalent units, or EUs, is a term we use for both production slots and delivery statistics. The majority of our vehicles represent 1 equivalent unit, while an articulated 60-foot transit bus takes 2 production slots and is, therefore, equal to 2 equivalent units.

On Slide 4, for those of you new to the NFI story, we are a leading independent global provider of sustainable bus and motor coach solutions. We are leaders in our core markets, which include North American heavy-duty transit coach and Aftermarket, the UK heavy-duty transit and Aftermarket, and a world leader in double deck transit buses.

Turning to Slide 5. Our purpose and mission is simple. We exist to move people. In other words, our products move precious cargo. We are focused on designing, building and delivering exceptional, safe and turnkey mobility solutions.

We have made a sustainability pledge in 2006, that still holds today. A better product, a better workplace, a better world. On the ESG front, one of our key actions in 2021 was to engage an independent third party to conduct a diversity, equity and inclusion survey of our organization. We continue to weave the findings of that survey and other ESG metrics into the fabric of our day-to-day operations and our long-term plan.

Slide 6 is critically important as it shows the breadth of our full offering. Our solutions include vehicles, infrastructure, connected data and telematics, Aftermarket parts and service and financing solutions. We are truly a partner of choice for bus and coach customers offering turnkey solutions.

On Slide 7, we've included our stakeholder model that drives our strategic decisions and our company values used in our daily operations. Achieving balance for all our stakeholders is critical to long-term success, and this has been especially true as we've managed through COVID-19 pandemic and the ongoing global supply challenges.

Moving to Slide 8. We are often asked about our total addressable market, or TAM. As you can see, we have leadership positions in our core markets, which represent a TAM of nearly $9 billion, of which we are currently capturing approximately 33%. We expect that our share of this market will grow over time as we lead the transition to zero-emission transportation.

In addition, we have an additional TAM opportunity of at least $10 billion coming from potential new market opportunities in the North American and UK bus and coach space, combined with geographic markets where we already have a presence, and other new potential geographic regions.

Our international expansion is made possible through Alexander Dennis Limited, or ADL, which was acquired in 2019. And while it has been significantly impacted by the pandemic and associated supply chain challenges, it continues to expand its reach.

On Slide 9, we walk through this growth. ADL has secured EV awards in New Zealand, grown in Hong Kong, continued to establish its presence in Singapore and has also seen significant European expansion with contract wins in Ireland and Germany. For example, ADL will deliver almost 200 double-deck buses into Berlin this year. Finally, in 2021, ADL entered into a strategic partnership with a local builder in Australia to grow its presence in that attractive market.

NFI has been on a growth and diversification journey since 2010 with Slide 10 showcasing this transition. In 2010, we were solely operating in the North American heavy-duty transit market with 99% of our volumes coming from buses powered by internal combustion engines. By 2019, we have changed our business with over 13% of our revenue coming from outside of North America, offered through three different vehicle segments and 6% of volumes coming from electric buses.

By 2025, we expect that 25% of revenues will come from international markets and that we will see stronger contributions from heavy-duty transit vehicles driven by expectations that more than 40% of our deliveries will be zero-emission buses. Government support—the key driver for transit procurement—is at an all-time high, with billions of dollars committed for long-term multiyear fleet investments and the transition to zero-emission, where NFI has a very successful win rate.

Putting all of this together on Slide 11 is NFI's investment rationale. As discussed, we have leadership positions in to markets that are transitioning to electrification with record demand and funding tailwinds. This will grow both top line revenue and bottom-line earnings.

We have decades of combined bus experience and track record, which is critical to our customers and a key differentiator when compared to new entrants. While we are leaders in zero-emission battery and fuel cell electric propulsion, we are also propulsion agnostic, offering legacy diesel, CNG and diesel hybrid electric options.

We can support our customers at whichever stage they are in their transition to zero-emission. This is another key differentiator for many of our competitors. Finally, while there have been challenges in the recent term, NFI has historically delivered above-industry performance, outperforming our peers, and we anticipate significant margin growth to 2025. I'll now pass it over to Paul to recap the quarter and fiscal 2021.

Paul Soubry^ Thank you, Stephen, and good morning, everyone. I'm well aware that our results will create a very difficult day in the market for our shareholders. These results reflect today's reality, and I'm sure many will show frustration with our outlook in 2022. The last two years have been like no other. From 2012 to 2019, we assembled a group of world-class bused coach companies, with the most recent being Alexander Dennis in 2019, which we acquired effectively with debt. We were excited about our next chapter, but the reality is the world for us changed and for many in Q1 of 2020. The pandemic has gone deeper and longer than we ever could have imagined, and the resulting impact on the global supply chain is unprecedented and continues with no obvious or quick relief in sight.

Our reality is, today, we have 2,000 less people than when we started 2020. The people that have been here and stuck with us have been asked to idle, to stop, to start, to slow down, speed up and then slow down again. Our business is not a simple one, but we're darn good at it, and we have a bright future. We've proven we'll be transparent with our employees, with our customers and with “the street”, and we will make difficult and, in some cases, unpopular decisions, but we have and will do the right thing for our future.

Let me be clear, we don't have a demand issue, we don't have a product or a service gap; we have a backlog, and we have a track record, but today's reality is we have an unreliable and unpredictable supply chain. It's not pretty right now, but we will manage through it. We lead this market. We led it before the pandemic. We're leading in the middle of the pandemic, and we will lead it after the pandemic when supply chain gets healthy.

For today's discussion, I'll start on Slide 13. Like the other global manufacturers, NFI's fourth quarter and full year 2021 results and operations were, again, impacted by the supply chain challenges that caused unpredictable and sudden deterioration in the availability of critical parts, components and chassis.

We responded quickly to these issues. We're assisting our suppliers with input constraints and improving or securing alternate sources supply where possible. We've lowered our production rates at idle facilities at times, which assisted in minimizing reprocessing of buses and avoided a buildup of excess work in process. Our orders are highly customized vehicles engineered to each customer's unique specifications and their selected suppliers.

The individual order sizes are smaller and have long lead times. In addition, we often have to adhere to local content rules such as Buy America. These factors make our business very different from automotive or trucking industries where customers often buy more standardized or pre-configured products. It also limits our ability for quick substitution or alternate suppliers on individual orders.

Our supply chain is built for this world and has delivered years of exceptional performance, but they are experiencing unprecedented constraints. We're not highlighting this as an excuse, but simply the reality of our business and our industry is the way it is. With those details in mind, we review our fourth quarter and fiscal 2021 results summarized on Slide 14.

While the quarter continued to be impacted by supply chain and pandemic-related absenteeism, we had numerous positives that position NFI well for the future:

- Strong growth in active procurements. They're up 70% year-over-year. We added more than 1,600 EUs to our backlog, resulting in a book-to-bill ratio for the first time in a long time of 115%.
- Our zero-emission buses made up 31% of our quarterly deliveries, and we achieved milestones of more than 50 million zero-emission miles driven and over 275 EV chargers installed by our Infrastructure Solutions™ team.
- 39% of our total North American bid universe is now zero-emission buses. This represents over 10,000 units of opportunity, supporting our view of significant increase in demand for electric buses going forward.
- We delivered an initial $18 million of NFI Forward savings in the quarter and $65 million for the year when combined with cash flow savings.
- We strengthened our balance sheet through equity raises and convertible debt issuance.
- And finally, even in the face of the pandemic and supply chain-related challenges, we saw quarterly Aftermarket Adjusted EBITDA increased 13%, up 47% year-over-year.

We've asked David White, our EVP of Supply Chain, to join us today, and David will walk you through some of the details of our supply chain and specific challenges that impact 2021. David will also talk to you through some of the things he's working on to improve our outlook going forward. After that, Pipasu will take you through our financial outlook for 2022. Over to you, David.

David White^ Thanks, Paul. In my entire 20 years of leading supply management at NFI, we have never experienced supply shortages and disruptions from our suppliers, even on a cumulative basis, like those we've seen over the past 12 months. We're in the very difficult situation of having a strong order book with near record demand countered by insufficient supply.

Slide 15 shows the dramatic drop in our production throughput, resulting from a pandemic and the escalating global supply chain challenges. In 2019, we were producing over 1,300 units a quarter with a very strong and reliable supply base with proven execution. In 2020, our production rates declined with the pandemic impacting customer demand. And as we entered 2021, the surges in COVID-19 impacted labor and capacity at both our plants and our suppliers around the world, leading to elevated disruptions in supply in key inputs.

As we manage through the impact of these challenges to our facilities, we decreased our quarterly production rates. While we are working to resolve key issues, and I do anticipate recovery, the first half of 2022 continues to be challenged, and we will operate at lower levels to match supply availability.

Turning to Slide 16. Our supply team is very proactive at communicating schedules and requirements to all of our supply partners. Through a detailed risk assessment process, our team continually monitors and evaluates the risk and potential impact of supplier disruption.

To do this, we review suppliers' financial strength. We monitor their past performance. We work proactively to understand their Tier 2 supply and other risk factors. We categorize suppliers based on these risks and we consider severe impact suppliers as those who can result in a line shutdown, the need to lower production rates or significantly impact completing buses.

We navigated through 2020, and we started 2021 without any major disruption from severe impact suppliers. Basically, a similar performance to what our supply chain has delivered for years. By the fourth quarter of 2021, these disruptions escalated to 50 severe suppliers across NFI, impacting key components, such as windows, air conditioning, emission systems, plastics, silicone hoses and many key electrical components and systems, which contain microprocessors.

Our team has worked tirelessly to assist suppliers in resolving lower tier or sub-supplier constraints, as well as improving and finding alternative sources wherever possible. However, there's only so much we can do on alternative sourcing, given the dynamics of our customer commitments and our product specifications.

From my industry conversations, our competitors are experiencing these same challenges often from common suppliers. I'll note that, even in the face of these challenges, we have not seen a single cancellation from a customer due to supply or the resulting delay in the timing of our delivery.

Further compounding these supply issues, in January 2022, a fire occurred at a sub-supplier of one of our primary North American electric bus battery supplier.

While a diligent recovery plan is in place, this has resulted in a 3-month disruption to New Flyer's electric bus supply with very little ability to accelerate other orders in the production window. We are in development on our next-generation qualification program using alternative battery supply, and this program, which started in 2020, will launch into production during the fourth quarter of this year.

As we look forward for the balance of 2022, the risks remain elevated as global supply chains are constrained and sensitive to further shocks. I do remain optimistic that we will see improvement in the second half based on the actions taken by our team and our supply base to address all the current constraints. It just is not happening as soon as we had expected. I'll now pass it over to Pipasu to walk through the financial impacts on 2021 from these disruptions and the outlook for 2022.

Pipasu Soni^ Thanks, David. Turning to Slide 17. We've illustrated the impact of the pandemic and the follow-on impact of supply chain challenges just discussed. During the first half of 2020, we idled our facilities for approximately 2 months in response to the pandemic. During this time, we received both Canadian and UK government wage subsidies to assist us in retaining our people. In the second half of 2020, we were able to catch up on delayed production and supply was not significantly impacted.

Moving into 2021, our Adjusted EBITDA was essentially split between wage subsidies and operations. In the second half of 2021, we received fewer waste subsidies and experienced a rapid decline in operational performance as supplier disruption accelerated. It is important to note that as we head into 2022, we do not expect to receive any further wage subsidies versus the $54 million received in 2020 and the $56 million received in 2021. This makes year-over-year comparisons difficult.

On Slide 18, we outlined the impact to our net earnings and adjusted net earnings. Our net loss for the quarter increased by $17.2 million compared to the same period in 2020 due to lower new vehicle deliveries, continuing supply challenges and lower wage subsidy assistance.

For the full year, net loss improved due to lower restructuring and COVID-19-related costs, while Adjusted Net Loss, which normalizes for nonrecurring one-time items, decreased due to stronger Adjusted EBITDA. While the pandemic has challenged our business, we have not been passive in our response.

On Slide 19, we outlined the numerous initiatives we have completed to offset pandemic-related impacts. We originally launched our transformative NFI Forward initiative in July of 2020 with a goal to achieve $67 million in annualized run rate savings by 2023.

We are well on our way to achieving that target through $55 million in overhead and SG&A reductions, the closure of a number of facilities in North America and the UK and sourcing savings. Outside of NFI Forward, we have increased our use of third-party manufacturers in the UK and Asia Pacific. We also strengthened our balance sheet through a combined C$738 million in equity raises and convertible debenture issuance.

Turning to Slide 20. This shows the results of these efforts with net debt decreasing by $464 million and liquidity improving to nearly $800 million. Our convertible debentures are excluded from our leverage calculations and come with cash settlement options. These raises position NFI well for the future as well as we have financial flexibility and a diversified balance sheet.

I'd now like to turn my focus to our outlook for 2022 with our guidance on Slide 21. We anticipate revenue growth driven by a higher percentage of zero-emission bus deliveries and product mix.

We expect Adjusted EBITDA of $100 million to $130 million, reflecting supply chain disruption and associated production inefficiencies, especially in the first half of the year. In addition, we anticipate zero government wage subsidies. Offsetting these reductions are anticipated NFI Forward savings generated in 2022.

We do expect the majority of our revenue and Adjusted EBITDA will come in the second half of the year, reflecting timing of our customer orders and improvement in supply chains. While we have heard from suppliers that we should see recovery in the second half, we are cautious and focused on ensuring that we continue to manage our cost, WIP levels and net debt during that period.

Also impacting 2022 is a period of heightened inflation from supplier price increases and purchase raw material commodities. To counter these rapid increases, we have repriced certain contracts and leverage clauses where a purchase price index can be applied to pass on cost increases.

For those contracts, where these clauses are not applicable, we are seeking price increases and surcharges through negotiations with customers. The potential benefits of those surcharges are not included within the guidance ranges provided.

Turning to Slide 22. As there is pressure on financial results in the first half of 2022, we do expect that it will have a lower trailing 12-month Adjusted EBITDA when our covenants resumed in the third quarter of 2022. As such, we may not be able to comply with certain financial covenants, including the interest coverage ratio and total leverage covenant.

This is a calculation challenge rather than a liquidity issue. Our banking partners have been very supportive throughout the past 24 months, assisting us in focusing on our long-term business while managing near-term challenges. We are currently in ongoing discussions regarding additional covenant flexibility into 2023 to address this issue.

While our focus is on finding a solution with our banking partners, there are numerous levers that we are exploring to lower our leverage, including:

- accounts receivable financing,
- receipt of customer advance payments and deposits (with expectations that we'll receive several large deposits in 2022 based on recent awards and potential for others),
- supplier financing programs customer surcharges to offset inflation-related price increases, and
- various cost reduction programs across the business.

In aggregate, these items could generate significant net debt reductions and improvements to Adjusted EBITDA.

Turning to Slide 23. While we believe the supply chain challenges are temporary, we have made the prudent yet difficult decision to reduce our current dividend by 75% to $0.05 per year [**editor note**: per year was said, but this should have been *per quarter*]. Given the strength of our order book, combined with expectations of supply recovery in late 2022 and increasing demand of our products and services, we do see an opportunity to increase the dividend supply chain improvement.

Before I hand things back to Paul, I'll close with an update on Slide 24, which reflects our near-term expectations provided with our Q3 2021 results. We have seen Phase 1 of the recovery plan consistently with recovery in bid activity, private market travel resuming and the initial rollouts of record government funding into public transit.

As we now move to Phase 2, we have anticipated that we will see significant new project awards plus overall continued growth in private markets as vaccine mandates are lifted and leisure travel resumes.

Finally, in Phase 3, we believe we'll see the true benefits of recovery as we begin to deliver on the significant awards received in 2022 and full rollout of new government funding. Now that we have covered 2021 and 2022, Paul will walk us through our strategic outlook as we drive toward our 2025 targets of over $4 billion of revenue and Adjusted EBITDA of $400 million to $450 million.

Paul Soubry^ Thanks Pipasu. I'm now on Slide 26. The transportation industry is a leader in the adoption of battery electric vehicles, and this is even more pronounced in public transit, which is our largest market. Commitments to zero-emission focus on shifting away from single car usage to shared transportation is a critical driver in helping cities states and provinces and countries achieve their net zero goals. NFI is playing a leadership role in this zero-emission evolution of what we call the ***ZE***volution.

On Slide 27, we outline some of the key milestones and differentiators for our business.

- Combined, our businesses have over 450 years of bus and coach experience and specifically, 50 years now of electric bus experience in North America.

- We're the #1 provider of zero-emission buses in North America and the UK based on 2020 and estimated 2021 deliveries.
- We have electric vehicles installed or on order in over 80 major cities with recent awards of California, Colorado, Michigan, New Jersey, Texas and Scotland and England.
- This year, our buses reached a milestone of over 50 million zero-emission miles in service, and we can produce over 8,000 vehicles of all propulsion types on our common production lines at our facilities.
- So far this year, we've completed ZEB charging infrastructure solution projects in 9 cities with projects in process in a further 19 cities.

Our history of innovation, our leadership position and our strength in zero-emission vehicle production has placed us in pole position on our path to 2025.

On Slide 28, in January 2021, we provided our investors with an outlook for the market, and we first introduced our 2025 targets that Pipasu just took you through. Since that time, many of our expectations and plans have come to fruition, and we continue to see the path to achieve our targets.

As you heard from Stephen, David and Pipasu, 2020 and 2021 had its challenges. And in 2022, we'll also face headwinds, but the underlying key drivers of our business have improved and strengthened. I'd now like to walk you through the items that will give growth for our 2023 to 2025 plan.

Starting on Slide 29, we discuss our transformative NFI Forward initiative. As Pipasu mentioned, originally launched in 2020 with the goal to reduce our overhead and SG&A by 8% to 10% from 2019 baseline levels and to generate additional sourcing savings. The program has seen tremendous success. We continue to expect that we will achieve our target of $67 million of Adjusted EBITDA, plus an additional $10 million in free cash flow savings by 2023.

We've completed numerous projects and objectives related to facilities optimization and centralization of certain functions. We're laser-focused on the sourcing savings with expectations for significant benefit in 2022 and 2023 coming from agreements with suppliers and increased sales of electric vehicles.

As we've made great strides with these projects, we're now planning to launch NFI Forward 2.0, another series of initiatives aimed at lowering our cost base, improving our competitiveness and driving additional free cash flow. The first of which is the closure of another U.S. parts distribution facility in Delaware, Ohio, which was announced earlier this week. We will provide more details on this initiative and other NFI Forward 2.0 programs with our first quarter 2022 results in May.

Turning to Slide 30. At this time last year, we were awaiting numerous procurements that we knew we had been delayed due to the pandemic and timing of government funding announcements. We're pleased to report that in the second half of 2020, we saw the rapid increase of bids to levels not seen since 2017. This significant increase in bid activity is driven by delayed orders plus recent transformative investments made by the governments in North America.

As you can see in 2017, following the peak in bids, we added significant new orders to our backlog in 2018, and we expect a similar profile now in 2022, with the potential for NFI to receive up to 3,000 units in orders over the next 6 to 12 months, some of which have already been verbally confirmed to us and will be announced in due course.

On Slide 31, it's important to note that we expect this bid growth to continue throughout 2022 and 2023 based on our Q4 2021 experience. There were over 1,700 units awarded from our active bids in Q4 2021, with NFI receiving 83% of those new awards and nearly all of those awards were replaced with additional new bids hitting the street.

Turning to Slide 32. This strong period of order activity helped drive our 2021 book-to-bill ratio back above 100%. Driven by expectations for continued growth in bid environment, we anticipate our backlog will continue to grow in 2022.

We also expect to see our option conversion metric to continue improving in 2023, as we move past some of the legacy internal combustion engine options to gain more zero-emission and hybrid orders.

It's important to note timing and lead times from when bids and awards are issued to when they show up in our facilities and make their way through our financial results. On Slide 33, we provide details of approximate timelines. The chart shows the average months from pre-bid (a period when we first hear about an upcoming bid), through the award preproduction and delivering acceptance process. As you can see, these differ by market and by product type, and are longer when we look at new markets. The majority of our business comes from North America heavy-duty transit, and I'll highlight is generally a 15-month lead time from when we first hear about a bid to when the vehicles are delivered.

We expect that late 2021 and 2022 bid activity will drive our financial performance in 2023 and beyond, both from firm orders that we have today and in options that will be exercised.

You've consistently heard from us about leadership position in zero-emission. Over the next few slides, I'd like to walk you through some of the details of our electric vehicle business. Starting on Slide 34, we highlight customers where we secured zero-emission orders in North America, New Zealand and the United Kingdom. And as you can see, are working with some of the largest operators in these markets. On Slide 35, we highlight advancements in our zero-emission bus strategy with the launch announced last year of 6 new models, including North America's first Level 4 automated transit bus. In 2022, we expect to see the first sale of Alexander Dennis' new hydrogen double-deck bus and the launch of next-generation batteries, as David discussed, for our North American bus customers. We've strategically chosen to be smart buyers of technology and supplier-agnostic on our battery cell and modules, given the need to be agile with rapidly changing technology.

We assemble our own battery packs for North American market in our facilities, and we're experts at integrating electric propulsion systems into our overall vehicle systems. It's not an easy task and it provides an integrated solution to our customers, providing them with confidence and stronger performance. Going forward, we expect that our continued focus on being value creators and battery pack sourcing and integration space will create margin opportunities for NFI as we deliver higher volumes of zero-emission vehicles.

A major development from 2021 that drives the path to our 2025 financial targets is the announcement of record government investments in public transportation. In all of our end markets, government support for public transit vehicles, and specifically zero-emission infrastructure, is at an all-time high.

Starting on Slide 36, we'll look at the United States' landmark, $1 trillion Infrastructure Investment Jobs Act, or IIJA. The IIJA is the successor to the historic FAST Act is the main funding mechanism used by U.S. transit agencies for new vehicle purchases. It generally provides 80% of the capital for a new vehicle that can provide -- and can provide 100% under certain programs.

As you can see from the chart, the IIJA provides 64% higher funding than the FAST Act, reflecting higher cost of zero-emission vehicles and associated infrastructure and the acknowledgment of increased demand. In addition, certain bus programs have seen massive funding increases, including the Low or No Emission Grant Program, which has grown from $180 million of grant dollars in 2021 to now $1.1 billion in 2022.

NFI was successful and supported the highest number of Low-No Grants with customers in 2021, and we expect to see significant contribution to our backlog from 2022 program. In addition, just yesterday, Congress unveiled a $1.5 trillion Omnibus Appropriations Bill that includes an additional $250 million for the Bus and Bus Facility Program, bringing the total fiscal 2022 Bus and Bus Facility funding to over $2.3 billion. Compare that to fiscal 2021, which was only $808 million.

There is no question the IIJA will drive bus market recovery in the United States, and it supports our view that the market will cover to deliver approximately 6,000 units per year, with a higher percentage coming from better margin battery- and fuel cell-electric buses going forward.

On Slide 37, we take a look at the Canadian funding dynamic, which is also in record size and scale. With commitments to replace 5,000 internal combustion engine buses with zero-emission, the Canadian government has launched dedicated annual funding plus specific funding through the Canadian Infrastructure Bank for infrastructure and financing.

We've already seen announcements for new programs in Edmonton, Alberta, Ottawa, Ontario and Brampton, Ontario through the CIB, plus a $5 billion joint federal provincial program in Quebec. Canada has historically been a strong market for NFI, and we see great opportunity for growth through these investments by the government.

Finally, on Slide 38, we provide an outlook on the UK market, where governments have also made significant commitments with the goal of putting 4,000 new UK-built zero-emission buses into service. While the pandemic slowed the timing of announcements and funding, we've seen distributions through the Scottish government zero-emission buses bus specific programs supporting orders already for 300 units at Alexander Dennis. UK vehicle deliveries were low prior to the pandemic. as operators weighted on the rollout of government funding for electric vehicles. Part of the attraction to acquire Alexander Dennis was the expected recovery of that market.

With the programs firming up, we anticipate volumes to grow to 2,550 units by 2025, and we expect a larger percentage of these vehicles will be battery- or fuel cell-electric, creating an opportunity for higher revenue, better gross margins and improved Adjusted EBITDA at Alexander Dennis. I'll now turn it over to Pipasu to tie all of these actions on our part and macroeconomic factors to our financial targets and provide additional color on our bridge to 2025.

Pipasu Soni^ Thanks, Paul. With reference to the dividend -- the revised dividend is $0.05 a quarter or C$0.21 per year.

Picking up on Slide 39, we recap our targets for 2025. I'll dig into the underlying assumptions and drivers.

On Slide 40, we provide a bridge on the key areas that take us from our 2019 pro forma results the first period that includes to 2025. We expect volume improvements as we deliver a higher number of units with a stronger contribution from ADL and ARBOC. As Stephen mentioned at the beginning of this call, ADL is growing in new markets, including Germany, Australia, Ireland and New Zealand. This expansion will help increase percent of our total revenue and margin in the forecast period.

In addition, both volume and mix will benefit from a higher percentage of zero-emission buses with approximately 40% of our deliveries coming from battery and fuel cell electric vehicles in 2025 versus less than 10% we saw in 2019. Our Aftermarket business will also see growth as private market recovers and we in sales of cutaway bus parts. All of these volumes will be delivered on lower cost base stemming from the reduction provided by the NFI Forward initiative.

In addition, we see opportunities for further productivity improvements coming from continuous improvement initiatives and efficiencies gained from economies of scale and delivering more electric vehicles in 2025. As Paul outlined earlier on this call, the demand for EV is growing, and we will be beneficiaries of this growth.

On Slide 41, you can see that EVs only made up 5% in North America transit deliveries and 10% of UK transit deliveries in 2018. Based on estimates, both markets have already doubled in size in 2021, and we anticipate they will grow further. 17% of our current backlog are ZEBs with a larger percentage of international backlog coming from battery- and fuel cell-electric vehicles.

Slide 42 highlights this trend of EV transition. The average price of a heavy-duty transit bus and backlog has grown by 14% since 2018, and the average price of a coach has grown by nearly 15%. We expect this trend will continue as we deliver more higher-priced, higher-margin EVs in 2022 and 2023.

I'll close on Slide 43 by briefly touching on our capital allocation policies. Debt management and leverage reduction remain our top priority for 2022, and we are working closely with our banking partners on near-term covenant relief.

In both 2022 and beyond, we will continue to invest in the capital projects that enhance our competitiveness and provide a higher ROIC return and possibilities for EPS accretion. These can come from products, facilities or tax restructuring. While we have, again, temporarily reduced our dividend, we fully expect to be able to grow it as we move beyond the supply chain challenges.

We feel NFI shares are undervalued and under pressure due to near-term headwinds and do not reflect the long-term value of the company based on our plan. We believe there will be valuation improvements as quarterly results improve as we grow our backlog, drive topline revenue and margin enhancements and deliver on our commitments. I'll turn the call over to Paul to wrap up before opening the line for questions.

Paul Soubry^ Thanks, Pipasu. I hope from our presentation this morning it's clear to everyone that our recovery in 2022 is not muted by demand, it is muted by our supply challenges. But our backlog, our order book and our market opportunities remain very strong and extremely encouraging. In addition to the items that we've already talked about in our 2020 targets, there are numerous other upsides that we're exploring.

On Slide 44, we outlined these in three categories: continued market expansion, continued operational improvements and the constant leveraging of our technology.

We believe it is prudent to not include the potential benefits opportunity into our 2025 targets, but we do see real potential here to drive financial contribution and we will keep you informed as we firm up our programs for growth and diversification in these areas. Make no mistake, we are focused on 2022 and on delivering to our customer commitments.

In closing on Slide 45, looking back at the past 2 years, no one could have predicted the disruption headwinds we've seen. As we've done since the beginning of the pandemic, NFI will remain focused on our people and the bigger picture. We will deliver for our stakeholders today to the best of our abilities and for the future.

We're well aware of the past years have been turbulent road for NFI investors. We thank you for your patience and hope today's call display is the depth of resilience and response that has united our team and the recovery path forward as we move beyond the challenges facing today's business.

There is no doubt 2022 will be difficult, but we have demonstrated our resilience whether it's growing our bid activity; recovering from private travel in the United States; increasing transit ridership back to more normal levels; the lifting of various COVID-19 mandates; the rollout of incredible and never unprecedented government funding; or the continued advancement of our zero-emission leadership strategy, NFI is extremely well positioned as a company, and we have the right products and the right services for today and for the future.

We're not behind. We are supporting our customers as they transition to zero-emission, and we will win that game. We will grow our backlog. We will deliver on our commitments to customers, and we will drive long-term shareholder value through earnings and return on invested capital improvement. The entire NFI team is focused on the task at hand.

We're challenged, but we're excited about the road we're on and the future is in front of us. We got this. We'll now open the line for our analyst questions. Please provide instructions to our callers, Jonathan. Thank you.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from the line of Kevin Chiang from CIBC.

Kevin Chiang^ Maybe I could just start with, I guess, how you're thinking about building this backlog here, especially during a period of uncertain supply chain. And obviously, you hope things get better, but it seems like visibility is pretty low.

Is there another risk that you're locking yourself into a price without real certainty on cost and if you have to adjust the supply chain, you're kind of eating into the margin? Or, I guess, what flexibility do you have to adjust the supply chain as you deliver on that backlog in the event that the cost of goods sold don't end up exactly where you thought they would be when you bid on these contracts?

Paul Soubry^ Thanks, Kevin. It's a really great question because we're facing it today based on the mix of the work that we're building today, and we're going to see it as we bid on and win work going forward.

A high percentage of our contracts have purchase price indices clauses in them, meaning that as the bus and truck index or cost index moves up to the United States, as we move into the future orders, we have the ability to recover that PPI index effectively matching the cost increase going forward. There are contracts that we have today that were bid last year or bid the previous year that have a certain price and certain cost expectation with them.

As David and Pipasu talked about, we are actively now working with our customers to look for either surcharges or price recovery or, in some cases, de-specing [specifications] buses to be able to allow them to live inside their budget windows, but also still pass on, if you will, or share some of the economic hardship of, let's call it, hyper or unique inflation in this time.

The other dynamic that we're working on is significant cost reduction. As David outlined, he's bringing online the next generation but also a second battery supplier for our North American business. That will have a significant cost reduction, both in the packs that we buy as well as the packaging of the actual buses into containers, if you will, that we put into our buses.

We have adjusted where we can or repriced where we can based on this kind of hyper inflation we've seen over the last, call it, quarter and a half. Going forward, we're obviously laser-focused now negotiating with customers, bidding where we can to provide flexibility on cost and price adjustments as that goes forward.

I can't imagine…I may be wrong, but I can't imagine that this crazy hyperinflation that we're living in right now is going to continue at the same rate. But we are laser-focused on ensuring that our bid order book is reflective as best we can on historical margins. But I will tell you that zero-emission has been very solid for us, and we expect battery electric margins going forward.

Kevin Chiang^ That's helpful. If I could just look at Slide 40, where capacity kind of gave us a bridge from 2019 to $400-plus million of EBITDA in 2025 and I look at kind of the big moving parts here. I guess that inflation bucket. I don't know if you laid this out last time when you initially released the 2025 target.

Has that number changed at all? And -- or does that reflect your current view on inflation. And I guess if I were to pull this further, it sounds like there's an NFI Forward 2.0. I guess the pushback today is going to be a comfortable around getting to that 2025. So just wondering just how much inflation has changed in this waterfall graph.

And then I mean you kind of get to the middle of where you want to get to. I mean, it seems like NFI Forward 2.0 would be additive to this? Or do you think, when you update, that inflation number gets bigger, given what you're seeing today and NFI Forward 2.0 ends up offsetting that and you end up in the same spot you see today, which is kind of $425 of EBITDA.

Paul Soubry^ Yes. Thanks, Kevin. So let me start and Pipasu then maybe you can jump in. When we built our original 2025 targets in the, let's call it, the fourth quarter of 2020, we did a bottom-up based assessment of each business. Which customers, which markets, which margin, which facilities and so forth. We ended up at that kind of $400 million to $450 million range.

We did exactly the same thing at the end of 2021 when we came up with our revised 2025 number, which ironically was still, or consistently still, in the same range of $400 million to $450 million. The added inflation here, no question, reflects a lot of our learnings over the last 6 months on what's happening with pricing from suppliers, commodities, labor increases and so forth.

We have tried to assume, and it changed the markets we're going after, the certain customer mix that we project to win the margin mix on certain types of products or certain geographies has changed throughout that period. But we have not baked in any significant changes associated with NFI Forward 2.0. And quite honestly, NFI Forward 2.0 is not going to be at the same magnitude. It is part of that continued optimization and rationalization of our cost base, but also going after labor efficiency and schedule attainment. Pipasu, do you have anything to add on that?

Pipasu Soni^ Yes, just a couple of things. So, Paul, I think just from a bucket standpoint, one of the things we did just when we think about inflation for our contracts, what we did was that is kind of try to stand to our growth number. And so realistically, all we've done in our inflation cabin.

It's something that we just wanted to pull out, but all that is, is really overhead and SG&A inflation of the 2% to 3% that we expect from a regular basis of price increases that we get from salaries and other things. So I don't necessarily think this is -- and it's always been baked into all of our LRPs [long range plans]. We just pulled it out.

Kevin Chiang^ Okay. That's helpful. And maybe just last one for me. Wondering if you're seeing any change in customer behavior away from kind of these highly spec'd vehicles, which I suspect gets exacerbated in the supply chain issues and maybe a recognition that -- or maybe it doesn't change things, I don't know, but maybe a recognition that if you kind of looked at a more standardized model, maybe a more simplified spec sheet that that could alleviate maybe some of the supply chain pressures and that can improve delivery times.

Are customers looking at it that way? Or maybe I'm wrong, maybe if you standardize the supply chain issue, would have be impacted at all and be the same place?

Paul Soubry^ Great question again, Kevin. If anything, specifications and customer unique demand has gone the other way away from standardization. You have to put in context, now again, a private operator, like a motor coach operator, yes, we have a much more pre-configured vehicles that we sell to private motor coach operators and they're choosing from pre-engineered options and so forth.

In the public transit world or even in our Alexander Dennis world in the UK or internationally, the degree of customization is actually getting more sophisticated because the amount of electronics computer systems, telematics, voice enunciation, route optimization and so forth.

And remember that a transit agency in a major city is developing a specification based on its own unique fleet that they have today. They're looking where they can to have commonality from a maintenance and support and training perspective. They also are responding to that local community’s special interest groups, whether it's the different communities and designing on a specification that is unique to their environment. I can honestly tell you, we have still never bid on a reference bus or a standard vehicle.

And we continue to see an incredibly high degree of customization, including the definition or specification of specific suppliers. I want x guy's air conditioner. I want y guys seats, I want z guy's window. And so we continue to believe the nature of the funding mechanisms, the reality of public transit agencies and their local pressures, demands and operating environments, customization will continue to be a very strong and prominent element of our customers' requirements.

And, at the risk of being a little bit too bold, we're bloody good at customizing the challenges that we deal with today has only compounded the supply chain challenge has compounded because we're buying in small batch quantities for unique customer requirements, and that has just made it even more difficult to try and optimize our production capacity.

We firmly believe, whether it's 6 months or 9 months or a year from now, that, once our supply chain gets healthier, back to that previous issue, and it's not like we didn't have supply chain issues before the pandemic and the results of it, that we'll continue to be able to be that very, very strong customizable product supplier for our customers.

Operator^ Our next question comes from the line of Chris Murray from ATB Capital.

Christopher Murray^ Thinking about the 2022 outlook and maybe what would be helpful, if you don't mind, if you could maybe break down your expectations a little bit maybe by lines of business. And what I'm trying to understand is in trying to shape how this looks if you don't mind going through maybe transit coach the UK business and maybe Aftermarket separately.

And just trying to understand kind of cadence of production and where you're going, I guess, in each of these different lines of business? And how -- or if there are any sort of milestones we can be looking for kind of as proof that we're at least in the right direction as we go through the year?

Paul Soubry^ Sure. Thanks, Chris. It's a good question. And of course, as you know, our reporting is manufacturing and then it's Aftermarket. And then, of course, we break out by geography, but that doesn't give you enough or sufficient intel or insights, I guess, on some of these segments. Let's start with some of the simple ones.

ARBOC is a business that builds customized low-floor cutaway vehicles as well as medium-duty vehicles. Medium-duty started a year and a bit ago, and it's now starting to get some traction. In that world, we control, we design, we optimize the chassis, and then we build a bus around that. That market is starting to grow, although it's slightly muted based on the overall market realities of supply chain.

The actual cutaway work is totally dependent on the availability of chassis and to kind of context or for magnitude, for example, we expect maybe to get 140, 150 chassis this year from the various providers for GM or Chrysler to be able to build cutaways. Our firm backlog is now north of 550 or 600 units; if we have the chassis, we would build them tomorrow.

So obviously, we're reliant on those chassis supplying up, and we're gauging and governing the pace at which we expect to get those chassis. And our assessment is that if Ford or GM has a spare chip lying around, they're going to put it in an F-150 before they're going to put it in a cutaway chassis. So, we're being realistic of the pace of recovery. Again, that is not a demand issue. It's not a contractor or a firm backlog issue. It is truly a supply issue.

On the New Flyer side, macro levels context. We've run this business almost, I think, for a period of time in the neighborhood of, call it, 60 units a week across our various facilities.

We were very volatile through 2020 and 2021; starting, stopping, slowing down, ramping up and probably average somewhere in the 30 units a week. Chris' strategy was to recover that in our 2022 AOP with the assumption that the supply chain will get healthier, starting to see real positive signs in the first half of this year.

Our conversations, for example, with the credit syndicate is we're pulling the fire alarm right now on some of these covenants before the fire starts, quite honestly. We're not going to see that recovery as quick as we would like, which is why we've revised our guidance or expectations down.

So what Chris [Stoddart] is now doing is creating a series of production schedules through 2022 that are kind of worst case, reasonable case and high case. If, in fact, the supply chain gets a little better, or—and our hearts go out to the people of Ukraine—impacted now with the whole dynamic of what goes on in the Ukraine and Russia and global commodities and so forth.

The year is effectively sold out for New Flyer in terms of all of our slots. What we don't want to do is line enter all of this stuff and not have enough parts, which then creates so much inefficiency and reprocessing and nonproductive labor, but it also sets up WIP at an unprecedented rate.

So, we're going to govern to get back into the 50s, if you will, of units over the next year, a year and a bit at a rate that we feel comfortable that the supply chain can support, but we're not going to wrap it up quick even though we have the orders because we just don't have that level of confidence.

The one thing you may want to mention here is just as we think about that second half of our exit rate, our Q3, Q4 is not necessarily the exit rate. You got to really look at the Q4 exit rate.

In the MCI world, historically, that business has been 60% private operators and 40% public. Our public contracts for this year, we know what we need to build, and we're governing it again, the rate based on the supply chain expectations. What Chris [Stoddart[and the team have done now is restarted the MCI commercial or private market product line. That production line has been effectively idled now for 2 years.

We're ramping that business back up. We have the resources to be able to do it. We're going to be prudent at the pace that we increase that, but it will grow from effectively zero units on the J line last year to a rate that we feel comfortable with over time.

What's positive and what we hadn't expected is the positive sentiment of the private operators in the United States. As you know, we liquidated our entire preowned coach pool last year of 350-some units. We also were able to successfully sell off all of the finished goods, if you will, of private motor coaches last year.

And if anything, we now have a deficit of demand to what we're able to supply, and that's why we're so focused on getting that J line back healthy. The line or the public motor coach line have good solid orders through this year and into next year, and we are governing that line again based on supply.

Alexander Dennis, as you know, sells buses in North America, it sells in the UK, it sells in Europe and it sells in Asia. That market has reacted slightly differently than the North American market, primarily because they're private operators performing a public service. As Stephen and I talked about earlier in the presentation, we are seeing UK government funding.

We're seeing Scottish government funding. We're now negotiating with customers at the pace of the recovery of the Alexander Dennis business, and we have received really positive results for deliveries in the Asia Pacific region for that business. It will recover. And the only area that, as we said in our presentation today, the one that we're worried about a little bit is what happens in Europe from a macro supply chain dynamic.

Our current forecast today: we don't buy anything from UK and Russia. We don't source anything. We don't have any customers in those regions, but we are having a difficult time kind of predicting what impact that may have in Alexander Dennis. So, we don't want to overpromise recovery in an area of uncertainty.

The last part of our business, which is actually very positive is the parts business. Both the North American parts business, the UK parts business, the global legends parts business had a very, very strong year last year. We're seeing recovery in demand. Our problem right now is also supply chain. We are now at record level back orders with our suppliers.

So, when a supplier has a widget to sell us, we're making tough calls on whether we send it to the OEM product line or whether we send it to the Aftermarket business to sell it to a customer. And that's, again, a reality that we think we're going to have to manage our way through 2022. The amount of inventory that we have on hand continues to turn and turn relatively well. We have record backlog from our customers of orders.

If we had a part tomorrow, we'd sell it, and we have record back orders from our suppliers. That market, we continue to think will be strong for us for that business through 2022 and into 2023 and beyond by the nature of the business we supply today, but also the fact that we've entered alternate businesses.

We now sell a good package and supply of parts for our other bus manufacturers for our cutaway market and, of course, now the continued growth of Alexander Dennis fleet. So, a long answer, Chris [Murray], but hopefully, I gave you some of the color on the various elements of our business.

Christopher Murray^ Yes. No, that's helpful. My next question, and you talked about the fact that a lot of the government support funding is going away. But part of, I guess, the original concept of that was to allow you guys to keep your teams together.

The question I've got for you, and we saw this a couple of years ago when you guys were trying to set up KMG was the availability of labor and being able to keep -- basically build that production capacity. What's the risk that as you stay at these low levels of production, are you going to have the financial capacity to maintain the engine, if you will. So, to bridge into 2023, maybe when things start getting better?

Paul Soubry^ Well, you have two elements to your question. One is financial capacity. And two is the labor availability.

So financial capacity, look, that's why we've worked so aggressively to try and adjust our balance sheet last year with the various raises. That's why we're working very cooperatively with our credit syndicate on getting more and additional flexibility on covenant calculations. We've got lots of debt capacity if we need expanded financial capacity. The labor or the people issue is today's reality. I mean, in Canada, we don't have as big of a problem hiring people that as we do in the United States or in some cases, in the UK.

There's a couple of elements. First, we've lost 2,000 people. In many locations where we've lost those people, we have recall rights. Whether available or not is another thing, But there are…there's a batter's box, if you will, of people. Number two, we're operating somewhere in the 60% to 70% on schedule attainment and labor efficiency because we're reprocessing like crazy and so forth with parts and availability.

As that supply chain translates into availability of parts and, therefore, efficiency on the product lines, we're going to pick up some free capacity that today is unbelievably inefficient. The third element is there's no question some of our facilities were going to have to add some people. And we've made it one of our major strategic initiatives is the retention and sourcing of people. We're adding talent managers inside our business—acquisition managers.

We're focusing on not only the retention but the attraction of people in some of those unique communities. We've worked really hard in places like Alabama to outreach. I think we have 10 community agreements now where they're helping funnel people our way as possible applicants. And, so, all that stuff is real for us. The single biggest lever issue problem challenges supply chain.

Our next issue is going to be how we recover on the overall mandate. The overall availability of people, both direct labor and indirect or to get from that lower production related to where we are at today or the mute rate back up to the rates that we want. As Pipasu highlighted a minute ago, it's not a light switch. We're going to ramp those volumes back up to the levels we feel comfortable with over the next year, not over the next 6 weeks.

Christopher Murray^ Okay. And then I guess, maybe just my last question, and this is really, I guess, what we're all sort of struggling with. Based on your expectations, and I know you don't want to put out guidance, but I mean, as supply chain normalizes, it feels like demand is certainly there.

Is the way to think about this is you almost take a step jump if you get your supply chain back to normal in 2023 and then it's sort of incremental into the 2024, 2025 targets? Or am I sort of maybe thinking about the pacing of this wrong?

Paul Soubry^ No, I think you got it right, Chris. The reality of it is our world, again, if we were building the same product on the same line at the same time, and it was just a matter of volume, that's one thing.

We're building houses on an assembly line; highly, highly variable. And it is, in many cases, highly skilled or semiskilled labor. You can't take a person off the street and say, start installing parts on a $1 million asset in our facility. There's training, there's safety.

There's blueprint reading, there's all kinds of things. Our view is that this is not step-change. This is gradual recovery through the next year to get to those production levels that we think are both sustainable from an order book but also sustainable from an execution perspective. You're not going to see us ramp up volumes week by week at any significant rate.

Think of it as 1 or 2 incremental units a week on average running through our facilities and the various production lines to get to 2023 and 2024 volumes. Again, I look at our order book, I look at what's sold for this year. I look at already the percentage of slots and the sign slots we have for 2023. It's not a demand issue in any stretch. The other issue is the last thing we want to do is to ramp up too fast and put product out there that has warranty issues or nonperformance issues and so forth.

You're going to see a dramatic increase in our performance in 2020. In the back half of 2022 compared to what we have today, you're going to see it improve again in the first half and significant improvement in the second half of 2023. 2025, back to Pipasu's slide: there's some growth in there. The growth really is around market recovery and around performance associated with supply improvement and cost takeout in our business.

We didn't promise to go from 50 units a week in Chris' world to…we're not promising to grow our businesses and our market shares by dramatic amounts. This is prudent decisions around the recovery of our business. And now, for the first time since I've been here, the amount of government tailwinds on funding is unprecedented. It's not a demand issue.

Operator^ Our next question comes from the line of Nauman Satti from Laurentian Bank.

Nauman Satti^ My first question is more, I think, on the presentation on Slide 33, where you have sort of provided the time line on once you get a bid and then it eventually gets into production and goes out, the hybrid activity that you're seeing that would probably start to benefit you in 2024 because I'm assuming even these 15 months long time frame, that's not the entire order.

That's probably 1 or 2 buses that go out. But if you get a complete order that takes longer than that, the greater activity that we're seeing probably translates into your backlog in second half and then eventual benefit of that is probably 2024. Is that the right way to think about it?

Paul Soubry^ Yes. I'd be careful because it's not a standing start. We already have inflated or escalated bid activity today. But if you and I were running a transit agency, and we now have political support and oversight locally to go zero-emission, go fuel cell or battery electric. We've tried a couple of them. We're already in the market bidding today and looking for improvements.

The tailwind now of significant 5-year funding confidence really allows you to think about in a fleet replacement plan rather than a trial dynamic. Back to one of the charts. If you go back a couple of years. It takes 12, 15 months, when somebody says, I think I want to buy a bus or a quantity of buses to when we actually deliver it.

We've got a lot of projects that are in the go, in the backlog or bids that are on the street today. So, we project what we bid on already will help fulfill 2023. And then what we're bidding on right now will help the second half of 2023. The book-to-bill ratio that we just completed in 2021 that I think was 115% is already going to have an impact on the second half of 2022.

Nauman Satti^ Okay. No, that's good color. And when I look at your balance sheet in high leverage, I'm just wondering if there are any investments that you wanted to put on zero-emission buses technologies and if that's impacting your competitiveness? Or is your new products or the new buses that you've launched? What's the feedback that you have from your customers on that front?

Paul Soubry^ Yes. It's a really good question because the products we're delivering are not brand-new products. Their continued evolution of proven platforms that have had diesel, natural gas, hybrid, electric trolley, now battery electric and fuel cell on the same platform.

The work that we've done to integrate technologies into our buses for zero-emission is, again, not a completely new platform. We have not held back on any investment on zero-emission. We've changed the timing on some of them.

We brought some of them forward. We've changed -- moved some of them back. We do not believe any of our decisions that we've made in the last year and are making right now will inhibit the competitiveness of our product. In fact, we continue to win zero-emission orders at a higher rate than our conventional internal combustion bids today.

Nauman Satti^ Okay. No, that's great. And I think in the prepared remarks, you've mentioned that ADL, and we actually saw that as well that you've expanded into some of the markets. I'm just wondering if you have these challenges in the North American market, and you already have that ADL in the UK.

Is it worth it to increase your footprint when you have all these challenges in your traditional markets? And in terms of the future profitability from those markets, like what's the thought process of entering those markets when you already have quite a bit of challenges on your plate in the traditional market?

Paul Soubry^ Well, remember, we're not adding footprint and capacity. In fact, in North America, we've been trying to rationalize and optimize capacity. So, when we bid on Ireland, for example, or we bid on Germany, those vehicles are made in our facilities that we currently have in the footprint we have.

When we win work that goes to New Zealand or to Singapore or Hong Kong, that product is made in cooperation with a build partner that we have in China. So, we're not adding footprint and capacity. We're rationalizing it. We're bidding strategically on new markets where we think there's long-term runway for growth.

Stephen King^ And Nauman, I think the only thing I'd add there in the ADL new markets, that same chart, you talked about your first question on the timing, we put in there kind of an average of 35 months. So, some of this is just groundwork to Paul's point to get to that market and for 2023, 2024, 2025. And as Paul mentioned, without major capital investments, because we'll be using third parties or existing footprint for manufacturing.

Paul Soubry^ Your question on new product development capital and product enhancement. Think of it as next generative evolution of proven platforms; enhanced power electronics, enhanced battery capability, range and packaging, enhanced electrical architecture of the bus, battery module optimization, size and performance, next-generation fuel cells and so forth. It's not as if we're launching a completely new or different product.

Nauman Satti^ Okay. No, that's fair. And maybe just one last one from my end. I think it was touched on before as well in terms of some of the contracts that you're trying to sort of renegotiate.

I'm just trying to get a sense like, if there is a percentage, I don't know if you have it, like how many of your contracts generally have those price index baked into it and how much don't have it? Is it the private ones that don't have it or the public ones that have it? Any sort of share mix between those contracts?

Paul Soubry^ Yes. The private market in North America, for example, private motor coach operators, those are mostly spot buys, meaning, hey, I want 10 or 2 or 5 or whatever motor coaches, what's the price today? So those will reflect the cost of those vehicles and the current market pricing.

It's the public markets, mostly in some cases where you have multi-year contracts where either you do have a purchase price index or where, in some cases, we may have bid a firm price.

I don't have that to the top of my head or at my fingertips, the percentage that of our products that are each category.

The good news, ultimately, though, is that we're continuing to replenish our backlog based on new pricing based on new cost expectations every single day. So, there will be noise in the system where we'll have some contracts that are challenging and other scenarios where we get the purchase price index that will have a significant impact, both on our pricing, but also the positive margin towards it.

Operator^ Our next question comes from the line of Jonathan Lamers from BMO Capital Markets.

Jonathan Lamers^ Looking at Slide 38. You're looking for North American transit volumes to return to 2017 levels next year 2023, UK volumes to return to 2017, 2018 ranges. That's a pretty dramatic recovery. Paul, based on the visibility you have today, could you just speak about the confidence you have in this stronger recovery, and what range of sensitivity you would put around this number?

Paul Soubry^ Well, it's an important issue, Jonathan. I think it's a good question. We put those numbers on the table here based on a customer-by-customer buildup. We have defined target customers. We have defined market totals. We talk to our supply community all day long who talk to our competitors in terms of what their expectations of volumes are and so forth. So, these are highly educated estimates of what we think the market recovery will look like.

Keep in mind that our customers, every single one of them has gone through 2 years now of delayed orders, delayed or challenged recovery in their businesses, aging points political pressure now at unprecedented levels to move to zero-emission and so forth. Again, we put these down as our highest confidence level of what we think that rate of return. It's not a snap back to previous levels, but it is a good, solid perspective on market recovery.

And if my litmus paper or a test or my gut check test would be if they were saying that to us based on what they want to do, only that's one thing. When you peel back and say, will you be able to be funded for this level, those numbers are unprecedented. I mean that low now is 10x the amount of money next year as it was this year or as it was last year.

So those kinds of tailwinds, if you will, the confidence of the transit agency to say, I'm going to buy next-gen vehicles, and I'm going to place orders either for fuel cells, battery electrics or even hybrid to start to move the electric journey are based on our best intel and based on the funding background, refunding dynamics.

Stephen King^ And I think just on the UK piece, I mean, if you look at the UK chart, depressed years, 2017, 2018, 2019, 2020, 2021, so there's become an element of vehicle age and just necessity for replacement. I think that, in addition, is driving some of the 2023, 2024 numbers; that recovery, the combination of government funding and just to drive the necessity to replace some of those vehicles.

Jonathan Lamers^ Okay. And maybe a question for Pipasu on the 2022 guidance. You laid out that 80% to 90% of the EBITDA is expected to be in the second half. How much of revenue is weighted to the second half, given all the supply chain issues?

Pipasu Soni^ Let me take a look at that. Jonathan, I'll answer it very shortly. I'll come back to you.

Jonathan Lamers^ I guess what I'm trying to get at, as well, is, would you have an estimate for where EBITDA would be this year without the supply issues. Guidance is implying fairly low margins for the consolidated business. Trying to get a sense of how much of that is a cost issue.

Pipasu Soni^ That's for 2021.

Jonathan Lamers^ I'm talking about the 2022 guidance.

Pipasu Soni^ Yes. So, what we've done, and again, maybe discuss this a little bit offline, we'll come back to you. But I think one of the things we've done is we've tried to categorize everything that we do feel is supply chain related, and it's really hard with the inefficiencies to determine that. But when we start looking at the supply chain related, we could see a path for getting somewhere close to $8 million in our range of things that could be potentially considered supply chain related.

Jonathan Lamers^ And just to be clear, those are all expenses?

Pipasu Soni^ No, this would be volume related and some other things that are causing some of our issues.

Paul Soubry^ Jonathan, it's Paul here. Just context: we have worked really hard at trimming the cost and the expenses to navigate through 2021 and through 2022 to minimize the impact on Adjusted EBITDA. What we haven't done—my silly analogy is we haven't cut off our legs because we still want to think we can win the marathon.

So, we are dead serious about trying to stay focused on the overhead, the facility capability that we have, given our backlog, given the bid rates. The last thing we want to do is take serious, serious action associated with the direct or even the indirect and professional labor and support like engineering, for example, supply chain people. because we fundamentally believe, based on our order book and based on our bids and based on where we've told we've won and we're waiting for a contract that we're going to recover the volumes.

And we're not proposing to recover the volumes we've never been at before. We're recovering in 2023, the volumes that are still 70%, 80%, 90% of the volumes we've done historically at each of those facilities.

But we really don't want to make imprudent or irrational decisions in the short term that effect our ability recover our business back to that 2025 and beyond target level. So, it's a little bit hard to say how much is directly related to supply or whatever. You're seeing a very, very soft first half of the year because of the continued challenges of supply chain and because we are not willing to take out dramatic cost reduction that inhibits or minimizes our ability in the future.

Pipasu Soni^ I think just expanding on that Jonathan, just the big items that was mentioned here, planned overheads, returning to the volume, et cetera. It's really, really tough to figure out the exact amount in terms of numbers, to Paul’s point.

Jonathan Lamers^ Right. So, I guess where I'm coming from are two issues. One is if the supply issues continue over the second half due to neon semiconductor shortages, et cetera, how much lower could we sensitize?

Paul Soubry^ So, this is why we put a range of our guidance of $100 million to $130 million. I mean, again, you take this year's performance, you take out all the wage subsidy support that we got -- and again, it's not like every part is missing. We get high 90s percent of the parts that we need.

But, for example, if you can't get plywood -- marine grain plywood for the floor, you cannot put the seats in the bus. And, so, the cascading dynamic on certain parts causes that incredible inefficiency in our machine. Some of that stuff we're today playing whack-a-mole; we're solving this problem and other one comes up, anything to do with microprocessors. So, we basically said we think 2022 performance won't be any worse than 2021.

We know that first half is going to be definitely muted, but we're basically projecting that we're going to see some benefits and some relief in the second half of the year, and we're keeping the vast majority of our facility capability and ramp-up capability, albeit inefficient or underutilized to be able to recover for our shareholders as we move into 2023 and 2024.

Jonathan Lamers^ Got it. Maybe just one conceptual question, if I can. Just again on that Slide 36, where you're laying out the recovery in volumes to prior cycle: you're not expecting volumes to be higher than prior cycle despite the funding increase. Could you review your expectations on price? Are you expecting that all the additional funding will be absorbed by that ZEB ticket essentially?

Paul Soubry^ Well, the logic in how we come up with that number, we take all of our major customers, and we sit and go through their fleet replacement price. Now the bus that they're buying is more expensive than the bus they bought in the previous cycle.

They're also having to put in charging infrastructure and they're having, in many cases, to modify their maintenance depots or their yard operations. So, when we listen to them, they're not expecting our market to go back to -- or to go up to 7,000, 8,000 units.

They're effectively managing to that fleet replacement, we think, around the 6,000 mark, but there's a whole bunch of other demands for their money. The other part of it is, it's not trivial to deploy a zero-emission fleet into an existing transit operator. You now have different technologies. You have skill increases that need to happen. Putting 5 or 7 buses in the corner of a depot today is kind of easy; when it gets to 5% of their fleet or 10% or 20%, there's a massive impact on their ability to absorb buses and optimize and maintain them and operate them inside of that window.

So, our projection is the market is going to stay plus or minus 500, maybe 1,000, units around that 6,000 unit mark. The funding only to us help solidify that we'll recover to those levels from what we've seen through 2020 and 2021 and 2022 as a direct result of the pandemic and the current supply chain issues.

Operator^ Our next question comes from the line of Mark Neville from Scotiabank.

Mark Neville^ Slide 16, I think, on the supply base. The high risk or severely impacted suppliers: I guess is that sort of financially stressed suppliers? I'm just trying to understand what that actually is.

David White^ No. There would be basically -- I think there was one. We'll be basically zero to do with financial concerns. These would be major component suppliers who have very sophisticated supply chains who are running into Tier 2 and Tier 3 constraints, which cause delivery schedules into our facilities to be disrupted.

I mean, as Paul mentioned, we are receiving over 99% of our parts, but we have major suppliers who have never failed us, who are providing shortages to our facilities, which are very impactful. And it peaked at about 50 suppliers across the group, about a dozen suppliers per operating business that were impacting production lines in one way or another.

Paul Soubry^ But this is the same supply base with the exception of maybe some of the new zero-emission elements that has delivered for us for the last 20 years. I mean there's names on there like Siemens. Siemens is not a nonviable company. They've got a certain element issues or parts or there's Cummins on there or others that today have a direct inability to get us apart that has a direct impact on our ability to deliver a bus.

Mark Neville^ I understand. The sourcing savings that you quoted from NFI Forward, is that hurting you now, with all these the supply chain pressures?

Paul Soubry^ Go ahead, David.

David White^ The vast majority, if not all of the sourcing savings in NFI Forward are very significant moves in our electric vehicles. New battery program, new power electronics, et cetera. So these are large numbers of savings as we implement new technologies and new suppliers into our into our zero-emission buses, more than offsetting inflationary increase on those vehicles.

Paul Soubry^ So it's not hurting us in any way, shape or form. These are savings we have baked in for a bus that we're going to build now next week, next month, next quarter, next year, where we now have a material cost reduction. These are nothing but enhancing our competitiveness and our profitability.

Pipasu Soni^ The one thing I would just add to that, just to be clear that we're all on the same page here is, remember, on our savings for our buses for sourcing until we build it and then we get it approved, that's -- we don't necessarily count that at this stage. So, the majority of the savings that you see when we talk about the $55 million is SG&A overhead reductions. I think probably about 95% to 98% of that is that number.

Mark Neville^ Yes. So, I guess my question was, it's not like you cut a bunch of suppliers to save on procurement and now where you're running into issues, it's not, it doesn't sound like that?

David White^ Well, we certainly have that on ICE vehicles today. We have cost reduction initiatives going on all the time, and now we have offsetting inflation. But what we have in our outlook here to 2025, are step change product and cost reductions in our ZEB vehicles.

Mark Neville^ Okay. I guess just a point of clarification. And you mentioned being sort of supplier agnostic for battery. But I think you're sole sourcing now. Is that correct?

David White^ We are sole sourced to the New Flyer transit program. We have at least 3 different battery suppliers today. And the new program coming on for Q4 this year is a dual source and next generation for New Flyer transit. But, yes, we were sole sourced for New Flyer Transit.

Paul Soubry^ Which is why the fire at one of their suppliers has caused us the window of time where we're not building zero-emission vehicles. That is not a supply chain issue. That is unique to a fire at a certain supplier that has inhibited our ability to get certain batteries for certain months.

Mark Neville^ Yes, that was the genesis of the question. Exactly, yes. I guess for Pipasu, just on some of the other initiatives you've laid out, I think one of them was AR factoring. Is there any reason why you wouldn't do that? I mean is there any pushback from, I don't know, the lending syndicate or anyone to suggest not to do something like that? Because it feels like pretty low-hanging fruit.

Pipasu Soni^ Yes, it definitely is low hanging. We are looking at it. We're kind of in discussions already with one of the banks to kind of do it. It's a little bit of an arbitrage for us in terms of just the differential rate.

Paul Soubry^ Mark, the challenge on that one is that every month, every customer, every contract is different. And so we are -- we really believe that's a prudent thing to do. We're going to do it if it makes sense. We've got to align the source of the factor to the customer dynamics. It's high, high on our priorities. And you're absolutely right. It kind of makes good sense for us.

Operator^ Our next question comes from the line of Maggie MacDougall from Stifel.

Margaret MacDougall^ So I guess this does play into supply chain a bit, but I'm wondering if you have to do any juggling for President Biden's proposed changes to Buy America or if you're already sufficiently set up for higher Buy America requirements.

Paul Soubry^ I'll ask David to comment. But one of the things that gets maybe misunderstood or not well communicated in the general media, there's two issues. One is

Buy America and one is Buy American. We live in a world for rolling stock, where Buy America means two things.

One, the material that we buy and put into our U.S. contracts where companies or customers use federal funding has to have 70% U.S. material content and there are certain functions that we must physically do in the United States like put a door on a bus. Buy American refers to primarily construction, bridges, roads, capital projects. Mr. Biden's latest announcements have nothing to do at this point with the FDA requirement that we live inside. It has more to do with the construction world and the capital projects dynamic.

David, maybe you can talk quickly about the work that you've done over the last 5 years as we've moved from 60% content to 70% content and the challenges with anybody going beyond that relative to the subcomponents of the individual products.

David White^ Well, in the last funding bill, the FAST Act, it moved the U.S. domestic content from 60% to 70% over a 4-year period. We made all the adjustments in our supply chain.

We opened up our KMG facility, moved work down there so that we deliver all our vehicles today complying with the 70% U.S. content that's in place for Buy America. There were proposed changes, but those were all pushed off the table and the new funding that just came out the 5-year funding we spoke of had no changes to Buy America. So, there is no issue at all with us complying with this going forward.

Margaret MacDougall^ Okay. That's helpful. And then comments around the inflation aspects that you're seeing within your business. The last week in particular on the commodity side has been pretty extreme. We saw the LME close down nickel trading. We've had spikes in oil. You name it, it's occurred.

And given how fluid that situation is, and I imagine how hard it is to plan around that, how have you sort of positioned yourselves for discussions with customers about the potential for very significant price increases should the kind of moves we've seen in the commodity market in the last 7 days be stickier than maybe we think they might be.

David White^ Well, that is a fantastic question. I can tell you that all the people that work in the supply group that have to talk to suppliers about pricing are very busy and the impact on raw materials, and our bus has pretty well everything on it, including radium in our emission system.

So, the impact is there. We felt some of it already. We're managing through it effectively, but we also have a very high-priced vehicle with expensive components. So, percentage-wise on those components is not far off from expectations we had and that we build into our bids going forward.

Chris Stoddart^ And Maggie, it's Chris Stoddart. If I could just add to that, too, as Paul or Pipasu mentioned earlier. And again, we've not had to do this, I think, in the history of our company, but we are having those conversations with all of our customers on vehicles delivered in 2022 to lay out in front of them, the hardship that we faced and look for opportunities to pass some of those surcharges on or as Paul touched on, there's a couple of different levers we can either de-content some of their buses going forward to have them stick within a budget. There's payment terms. There's warranty terms. But in some ways, some shape, we're going to have to recover that from our customers. It's not an easy task, but that plan is in motion.

Margaret MacDougall^ Okay. That's very good to know. And then, I guess, the supply chain issues that you faced in the past have I'm sure have been exacerbated by the war, which we've touched on through the course of this call.

Are you comfortable that, should things not really improve too much before, let's say, the end of this year that you will be in a good liquidity and standing position with your lenders in order to just continue to kick the can down the road should you need to do that again in 2023?

Paul Soubry^ Well, yes, it's a good question. The work we did last year, the capital raised in the first quarter and then the convert in the capital release in the fourth quarter and now not fun, but necessary conversations with the syndicate about further flexibility and creativity on the covenant calculations. We put in place a package that we felt gave us lots of runway and lots of debt capacity if the worst of the worst case happens. So hard to predict the future.

We think we're in a pretty good place with the total amount of capacity that we have. We've got -- as Pipasu talked about, we're going to pull every possible lever that we've already pulled and others on the price -- repricing, if you will, with customers on the work associated with balance sheet and cash flow.

We've got a couple of customers that won't give us price relief, but one of the scenarios is they'll give us advanced payment terms. And, so, changing the shape of our cash curve is another way of addressing liquidity and flexibility as we go through this stuff.

So short answer, we feel that we've got enough room and the flexibility and the order book to be able to manage our way through 2022, just like we did 2021. And it's impossible to handicap what the crisis and the war in Ukraine will do to the world commodity prices and so forth. Before we had a concern of whether funding would be there, and then there's an execution issue.

Today, the funding and demand is there. Execution is really handicapped by, number one, supply chain; and number two, ensuring we got the machine, the facilities and the people to be to build the work, and we can do everything we can to kind of manage and navigate our way through that. We've put a pretty wide unfortunate range in for 2022 to give you some context. And hopefully, that you can back into calculations about how much room and flexibility we think we need.

Pipasu Soni^ Aand maybe just to add to that, look, I've got an extremely high level of confidence that we are not going to get into any kind of liquidity issue. If anything, we're dealing with the calculation issue with these discussions, but a liquidity standpoint, we look at that on a daily basis. We're not necessarily seeing any major changes to it even with the ebbs and flows that we've seen with supply chain. We've done an excellent job across the teams with that.

Margaret MacDougall^ Okay. Fantastic. And then just one maybe outside the box question. I mean it seems almost impossible. You guys are not the only company feeling this pressure, by the way. I know it's really crappy, but it's kind of ubiquitous across a bunch of different sectors.

And I know we're all going to start feeling it in our pocketbooks at the pumps and in the grocery stores with the inflation that's been occurring. It doesn't like a foregone conclusion, but I don't see how we don't get some sort of economic sort of contraction as a result of what's going on. And, in your case, I'm wondering, and I'm thinking about this for a bunch of different businesses.

You never really had a post-COVID recovery in terms of demand because of all these challenges in your business. If we did get a recession, or an economic contraction that was sort of the valve that relieve the pressure on supply chain and inflation. Could that be actually a positive for you at this point? Because what would the downside be in the top line and profitability from that kind of event given where we're at today?

Paul Soubry^ Well, your assessment is consistent, I think, with the way we've looked at this thing. I think a couple of things. Some people equate our industry to ridership is what drives bus demand. Sure, it does in the private motor coach market, the amount of people on an individual coach.

In a public transit world, whether they're public entities or private operators, they're performing essential service. If we start to see real inflationary times or we're seeing it gets worse and uglier, the average person who today takes their own car, who fills up their car with x dollars per gallon of gas, who pays for insurance and parking and so forth. Our industry is poised to be able to say that's only going to improve and enhance ridership of public transit.

Go back to: the funding is more the driver of demand of vehicles. The support of public transit through use and through now zero-emission, which has emissions benefits and congestion benefits are all good things for us. Inflationary pressures in general should help maybe mitigate or put pressure on what supply chain expects for price or cost increases associated with our business. Net-net, that would be a benefit to us, I think, downstream, if in fact that happens.

The trick in the short term is getting the bloody parts at the appropriate price that we can manage and manage with our customers, and then building the buses. Circling all the way back to the other conversation, it's not a demand issue in the next window or the next chapter or the next four years of our life. It's very much an availability and an execution issue.

Operator^ Our next question comes from the line of Daryl Young from TD Securities.

Daryl Young^ Thanks for the fulsome presentation. It's very helpful. First question is just around -- I think in your opening remarks, you mentioned market share north of 80% on orders in Q4 across the industry. Just kind of curious, is that a reflection of more EV orders coming through in that period and your kind of early dominance on the EV side? Or can you just give a little bit of context on why such a huge market share?

Paul Soubry^ Yes. I mean market share, the way we measure it and report it is based ultimately on deliveries because you could win 80% of the orders that have both firm and options, and you don't really know at this point where the options will be converted.

I think our assessment of that high level of win rate in the fourth quarter is a couple of things. We have a product mix that has both legacy transitionary capability like hybrids and we do two different hybrid options as well as the zero-emission dynamic of trolley or battery electric or hydrogen fuel cell.

And so based on the number of RFPs, the mix and type of RFPs, we had a very, very successful fourth quarter. We don't expect to win 80% of the bids going forward. We have won a higher percentage of our delivered market share in the last couple of years on zero-emission, and we have won approximately the same rate as historical market shares on the internal combustion type program.

I think it reflects on a transit agency saying I've got a fleet of [New] Flyers or I have history with New Flyer or I have a history with MCI. I've got parts. I've got training. I've got confidence in the platform. I've now seen a number of zero-emission buses in action in any kind of operation, whether it's cold weather, whether it's hills or mountains and those kind of things.

And I think it also reflects the reality of a transit agency acknowledging that this transition is not trivial, as I said before, and the reliance on a field service team and a dedicated zero-emission team that could help support that transition and help teach and learn and deploy and troubleshoot their chargers and all those things.

That bodes well for a company of depth of history of track record that we've had. There's no question we've had issues over the years. Pick one. We've been the first with all of the new propulsions. There's definitely learning curve.

But what our strength is and what feedback we get from customers is when there is issues, we'll stand up and deliver, and we'll ultimately come to the table to help get those buses back into service to support that customer's operation. So, we're ecstatic with that kind of win rate. It's not sustainable, but it does reflect the offering; it's a very comprehensive offering. It's not just a bus.

Daryl Young^ Okay. That's great. And then one last one. As we progress through the next few years of transitioning to more and more EVs, I would assume that there's complexity in your supply chain, obviously, and margin pressure associated with that.

Do you need to get back to effectively one core product and having the vast majority of our production coming from that to hit the 10% margin target that you have for 2025? Or I guess, said differently, would you expect a normal margin pressure across the ramp-up until we get a leaner product portfolio for manufacturing?

Paul Soubry^ Well, Yes. Intuitively, you'd say that variation is going to cause complexity for quite some time. Quite honestly, though, that's been our life ever since. We built highly spec'd, highly variable different propulsion systems on the same production line. Chris [Stoddart] and his team a couple of years ago were faced with a choice.

Do I set up separate production lines for zero-emission? Or do I build it on the same line? Inherently, if you have a zero-emission bus followed by a diesel followed by CNG, you're going to have labor inefficiency on the dedicated line.

Chris' team chose the strategy, as did Paul [Davies] and the team at Alexander Dennis, as does ARBOC for that matter, to build the same product on the same line and to be able to handle various types of products on that line. Because we can't handicap the pace of adoption, we think we've made the right decision to be able to be agnostic on how we build that line.

Over time, we definitely believe through costing initiatives, labor efficiency, getting, for example, to build hours on a zero-emission to be the same build hours on a hybrid, for example. All those things are only going to be net-net benefit to our production margin that we see today.

But I think we made the right choice to have variable production on the same line to allow us to adapt. If zero-emission adoption goes faster, we're ready. If it goes slower, we're ready. That is very different than a competitor that only has a zero-emission or doesn't have a fuel cell or it doesn't have a hybrid where today, there are starved, you know, feast or famine on what you can build on that production line.

Operator^ Our next question comes from the line of Cameron Doersken from National Bank Financial.

Cameron Doerksen^ So just going back to the, I guess, the covenant question, I mean, certainly, liquidity does not seem to be a major concern here, as you mentioned, really a calculation issue. But we've seen in the past, I guess, when you have gotten covenant relief, there has, in some cases, that's come with additional equity. So, I'm just wondering if there's any risk we should be thinking about here of a potential further shareholder dilution.

Paul Soubry^ Yes. Well, look, the work we did last year, the raises that you and the others were part of last year was to try and set us up for an unknown period of time, and we're seeing it now in 2022, and I think in hindsight that we did that work and adjusted our balance sheet. We aren’t projecting to issue or planning to issue any more equity or to dilute our shareholders in any way, shape or form going forward. we have work in front of us.

We have had really good conversations with the leads and the credit syndicate about capacity, but, more important, calculation flexibility going forward. The tailwinds, notwithstanding the current headwinds of supply chain and uncertainty of the predictability of our production rates and so forth--the tailwinds, I think, in our perspective outweigh for the next period of time where we can live inside that current credit framework and capacity demand. So, we don't plan to issue it. And no guarantees ever, but that's not on our road map in any way, shape today.

Cameron Doerksen^ That's good. And just maybe a quick second question. I mean, obviously, supply chain is affecting all of your competitors as well. But I guess this battery fire is a new wrinkle that's maybe specific to NFI. I mean, is there any, I guess, risk here around cancellation of any orders or penalties from customers? Just wondering if you can sort of handicap that.

Paul Soubry^ Well, let me talk a little bit about cancellations and penalties, and then David can talk a little bit more detail of the sub-supplier to our battery supplier, and it's really a window issue as opposed to a systemic issue.

We haven't seen cancellation of orders as a result of supply chain or not delivering a window. If you think about the average transit agency back to that one slide, they've gone through a massive amount of public consultation, fleet analysis, a competitive bid process.

Most of our contracts have delivery windows, delivery days. And so they've been incredibly accommodating as we've moved pull-forward pushback adjusted our production schedules. So, we don't see that continuing to happen. Have there been liquidated damages? Yes. Are they material? Absolutely not. Have we had some negotiations with customers where contractually we owe them $200 a day for a bus that we didn't deliver? Sure. What we did is negotiate with them a little bit more training, maybe a little bit more creative flexibility on field service or warranty and so forth.

We have not, nor do we expect material liquidated damages associated with contracts we have and challenges to the supply chain. With respect to the battery dynamic, David, maybe you could comment a little bit about that and kind of how you're managing that with them and how it impacts the customers?

David White^ Yes. Obviously, a very unfortunate circumstance on a sole-source supply Three-month disruption, solid recovery plan in place to resume in May. As Paul said, customers are very flexible and able to work with us on that. And we will ramp back up starting in May, and we have secondary sourcing coming online with new generation, which provides extra benefits in Q4. So, we have a very solid plan to recover from this over the next few months.

Chris Stoddart^ And, it's Chris Stoddart. I'll just add: every impacted customer, clearly, we spoke to them as we reschedule the work. So, they're all well aware. The schedule has been adjusted and they are in an agreement.

Operator^ This does conclude the question-and-answer session of today's program. I'd like to hand the program back to management for any further remarks.

Stephen King^ Sorry, we did have two questions come in through the webcast. Both financially related. So Pipasu, Paul, I'll point out to you guys. The first one was a question around Q3 to Q4 2021 deliveries increased, yet excluding CEWS, we didn't see that large of an increase in Adjusted EBITDA in the Manufacturing segment.

Paul Soubry^ Well, listen, it's a good question. The Quantum going through our facility had an impact from the mix and the margin that was bid at the time. But we go back to the comment we had earlier, where we've taken significant cost out of the business, but we have fundamentally not reduced our overall overhead or production capacity across the business.

And so you're going to see always—that's why we ask people to look at LTM numbers, not individual quarters—you're going to see movement on EBITDA positive or negative based on the mix at that time.

Pipasu Soni^ And I think to that same point, deliveries, remember, were higher in Q4, but we had our production was lower. So we had a few higher inefficiencies in Q4 versus the Q3.

Stephen King^ Perfect. And the final question came in around guidance for 2022. A question around the run rate. If we looked at the second half of the year based on our seasonality distribution, if you did a run rate for second half 2022, not quite as high as our original guidance for 2021. Pipasu, maybe you could comment on that expectation of what is driving that run rate being lower for 2022?

Pipasu Soni^ Chris can even add more color to this. But, at the end of the day, we have a ramp-up scenario going through 2022, right? And our goal is we would like to get to that get into that high 40, 50 range, if we can, by the end of the year, so, as we exit 2022 into 2023, where we've got a really strong order book, we can have it running at that higher rate. So that's why you would probably see a step change in 2023 versus 2022 in terms of

EBITDA is kind of our thought process. And again, obviously, this depends on supply challenges, et cetera, and how far they go.

Stephen King^ Okay. I think that covers it off. Thanks, everyone, for your questions. At any time, please feel free to reach out to us. All of our contact information for the IR department is on our website. Thanks again, and have a great day.

Operator^ Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.