NFI Group (NFI 2022 Q1 Results)

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Corporate Speakers:

- Stephen King; NFI Group Inc.; Vice President, Strategy and Investor Relations
- Paul Soubry; NFI Group Inc.; President, CEO & Non-Independent Director
- Brian Dewsnup; NFI Group Inc.; President of NFI Parts; Acting President and CEO
- Pipasu Soni; NFI Group Inc.; Executive VP & CFO
- Brian Tobin; NFI Group Inc.; Independent Chairperson of the Board

Participants:

- Chris Murray; ATB Capital Markets Inc.; MD of Institutional Equity Research for Diversified Industries & Senior Analyst
- Cameron Doerksen; National Bank Financial, Inc.; Analyst

PRESENTATION

Operator: Welcome to the NFI 2022 Financial Results Conference Call. My name is Adrianne, and I'll be your operator for today's call. (Operator Instructions) As a reminder, this conference call is being recorded.

I'll now turn the call over to Stephen King, Vice President, Strategy and Investor Relations. Mr. King, you may begin.

Stephen King: Thank you, Adrianne. Good morning, everyone, and welcome to our first quarter 2022 results conference call. This is Stephen King speaking. Joining me today are Paul Soubry, President and Chief Executive Officer; Pipasu Soni, Chief Financial Officer; Brian Dewsnup, President of NFI Parts; and the Honorable Brian Tobin, Chair of NFI's Board of Directors.

Today, we will walk through an update on the temporary leadership plan we announced earlier this morning, our quarterly results, and provide our outlook for 2022 and beyond. This 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.

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

Please also note that certain financial measures used on today's call do not have standardized measures prescribed by International Financial Reporting Standards, and, therefore, may not be comparable to similar measures presented by other issuers. 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. 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 ZEB, consist of battery-electric, hydrogen fuel cell-electric and trolley-electric buses. Equivalent units, or EUs, is a term that 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 coach solutions. We are leaders in our core market, which includes heavy-duty transit coach and aftermarket parts in North America, heavy-duty transit and parts in the United Kingdom and the world leader in double deck transit buses.

Turning to Slide 5. Our purpose and mission is simple. We exist to move people. Very simply, our products transport precious cargo. We are focused on designing, building and delivering exceptional, safe and turnkey mobility solutions. We've made our sustainability pledge in 2006, and it still holds true today: a better product, a better workplace and a better world.

We have implemented numerous advancements on the ESG front, or environmental social governance, in 2021 and to start 2022. Full details of all our various ESG initiatives, including our diversity, equity and inclusion survey and our materiality mapping exercise will be outlined in our fourth annual ESG Report, which will be released in a few weeks.

Slide 6 is critically important as it shows the breadth of our full offering. NFI solutions include vehicles, charging infrastructure, connected buses and coaches, telematics, aftermarket parts and service, and financing solutions. We are truly a partner of choice for bus and coach customers, offering comprehensive and customizable solutions.

I'll now pass the call over to Paul.

Paul Soubry: Thank you, Stephen. And for those of you that caught Stephen's title at the start, pleased to announce that Steve has been promoted to Vice President of Strategy and Investor Relations, a very well-deserved promotion and a really, really strong part of our team.

Good morning, everyone. Earlier today, we announced that I will be taking a temporary medical leave of absence having recently been diagnosed with an aortic aneurysm. As I undergo further testing to determine the most appropriate treatment, I will be on leave for a few months. In the interim, NFI's Board has appointed Brian Dewsnup, currently President of NFI Parts, the role of acting CEO during my absence. I've worked closely with Brian for almost 9 years now. And on Slide 7, we provide details of his background and his leadership experience.

Brian joined NFI in 2013 through our acquisition of North American Bus Industries, or NABI. And at the time of acquisition, Brian was NABI's CFO and then became President of NABI post its acquisition. Brian has been leading NFI Parts since 2017, and under his leadership, that business has seen strong growth in both revenue and profitability from product diversification, market expansion and cost optimization efforts. In addition to his extensive financial and operational experience, Brian holds an MBA in Finance and both a master’s and bachelor's degree in mechanical engineering.

While it pains me to take leave as NFI navigates through the serious global supply chain and logistics challenges, I know that it's in my best interest and in the Company's best interest that I take time to focus on my health. With the Board's unequivocal support, Brian and the rest of our executive team will continue to execute on our strategy and navigate through the latest supply chain hurdles and disruptions.

I know that the business is being left in great hands, and I'm committed to actively returning as soon as my health permits. So, before I dive deep into our first quarter results, I wanted to give Brian an opportunity to introduce himself to our investor and stakeholder community. Go ahead, Brian.

Brian Dewsnup: Thanks, Paul. I'm excited to take on the role of Acting President and CEO, although I obviously wish it were not under these circumstances. I've had the pleasure of working directly for Paul since NFI's acquisition of NABI. At that time, NABI was a leading provider of heavy-duty transit buses in North America, generating over $320 million in annual revenue.

Following the acquisition, I became President of NABI to lead the integration with the broader New Flyer business. I then led NFI's 2015 acquisition of MCI, giving the exposure to another major industry segment with both public and private customers. After working with Paul on the MCI transaction, I moved into the President role at NFI Parts in 2017. We've had tremendous success in the aftermarket segment, driving revenue growth and margin performance through cost optimization efforts.

Following numerous acquisitions by NFI, we launched a program to consolidate our distribution facilities, going from 21 warehouses to 6. We've also launched new product lines and service models in a new store. We're fortunate that Paul has developed a strong leadership team at all levels of the organization, led by talented executives. As I step into this new role, there are numerous initiatives underway that have already been engaged with my fellow executive who will now go deeper as acting CEO.

I'll be working closely with Chris Stoddart and David White as they navigate through the near-term supply disruptions and execute on plans to mitigate module shortages within New Flyer. I'll be working closely with Pipasu Soni, as we look to finalize our credit agreement in the second quarter and will also be focused on driving us towards our 2022 financial guidance.

While our near-term headwinds that need significant focus, like Paul, I'm always keeping a focus on the long-term future. We'll continue to make the right investments in capital assets, people and products in 2022 and 2023, and to ensure NFI maintains its leadership decisions in our core markets, grows in new areas and drive the transition to zero-emission mobility. As acting CEO, I'll be working close with our customers and supplier groups I know well from my current role in NFI Parts and from my previous positions at NABI.

It is critical that we engage with our customer partners during these challenging times, as we work with them on delivery schedules, new bids, purchasing schedules, contract awards, vehicle acceptance processes and aftermarket services. With supply chain disruption a key focus, we'll be working extremely close with our suppliers and other tiers of our supply chain to ensure we continue to identify and mitigate any potential disruptions.

Finally, Stephen and I will maintain the open and transparent environment Paul has created with our investor and analyst community.

With that, I'll turn the call back the call to recap our first quarter results.

Paul Soubry: Thanks, Brian. We're now on Slide 8. The first quarter was another difficult period impacted by the continuing global supply chain disruption and heightened inflation. While our results reflect those realities, they also reflect the strong demand for our market-leading products and services.

In the quarter, we:

- received new orders of 1,407 equivalent units;
- recorded a book-to-bill ratio of 164%;
- grew our backlog by 5% sequentially and up to 8,908 EUs with a total value of a backlog of $5 billion; and
- we had another 1,192 EUs in bid award pending, which means we've been advised of an award by our customers but we await the formal contractual documents. Once they are received, they will be recognized as awards in the second quarter. This is an important number, as it showcases we will see another period of significant awards and new orders, which we expect will deliver another period of backlog growth.

NFI has not only been successful in securing new orders; we're also witnessed the bid environment growth back to 2017 levels. At the end of the first quarter, there were 5,562

EUs in active bids out for procurement and 26,371 EUs in our total North American public bid universe, which measures active bids plus the 5-year outlook for demand based on agency and operators' fleet replacement plans.

On the zero-emission front, we received orders for another 222 equivalent units in the quarter, now representing 16% of new firm and option orders. Our total backlog is now made up of nearly 1,500 EUs for zero-emission buses, which equates to approximately 17% of our total backlog. Our total public bid universe is now 43% zero-emission buses, another solid sign that the transition to zero-emission is well underway, and we will continue to advance our leadership.

Our Aftermarket business had another strong quarter with revenue up 16%. In North America, aftermarket operations in international markets continues to be a bright spot in a challenging manufacturing environment. Kudos to Brian's NFI Parts team and to Paul Davis' ADL International aftermarket group for very strong performance despite themselves dealing with supply chain challenges.

The first quarter did see improvement in some of our parts supply, with more consistent supply of things like windows, plastics and fiberglass. But, overall, we remain constrained and unable to operate efficiently or increase our planned production rates as we originally intended. Any part with electronics or microprocessors is on high alert. Our engineers have redesigned parts or identified alternative parts where possible. Our supply teams are also working now, in some cases, four levels down in the supply chain in their efforts to mitigate problems or to complete early detection of potential supplier disruption.

As we discussed last week, we're now faced with a module shortage, caused by a lack of a certain microprocessor chip that will impact our operations, specifically at New Flyer in the second and third quarters of this year. As we noted in our press release, we have a detailed plan to address this issue, and let me take you through a little bit of the plan on Slide 9.

The multiplexing module is essentially the brains of the bus. It connects all the electronic systems and provides control instructions to various other components. Each New Flyer transit bus required in a range of 5 to 8 of these control modules depending on its specification and complexity. Without these modules, the bus simply can't operate. Each module has printed circuit boards that include microprocessors or chips.

A few weeks ago, we were informed by our module supplier that the chip sub-supplier was experiencing a shortage, and we would, therefore, not be receiving our regular scheduled and confirmed orders of those modules starting in May of 2022, with expectations that the delays could last for a few months. For context, our module supplier is a $20 billion incredibly successful company and has provided us with on-time delivery for 20 years. This was definitely an anomaly.

We've escalated to the highest levels of the module supplier, the chip broker network and ultimately to chip manufacturing. We've been assured that New Flyer will see a large delivery of modules in August as they anticipate stronger chip supply in the coming months. In addition, we're also developing the next-generation control module that will use a different chip and a more readily available microprocessor. This new module will be online in July or latest August for installation on certain new vehicle builds.

As we await the modules, we will do the following:

- Using a float of modules we have on hand; we will build buses and install modules on vehicles that go down the production line;
- Once vehicle assembly is complete, we will work with customers to complete their on-site inspection, then park the bus and remove the modules.
- The removed modules will then be put back into the production line and installed on the next buses to be built.
- The buses missing modules will remain parked, in secure locations, and as soon as modules arrive, they will be installed.
- Installation of the new modules will take approximately 4 to 5 hours of service time. The now fully completed buses will then be driven to customers, where they will complete a final inspection, and ultimately be recorded as revenue.

We anticipate that these work-in-process buses will start to flow to our customers through August with nearly all of these buses expected to be delivered by year-end.

New Flyer and MCI President, Chris Stoddart and his team, with support of David White, VP of Supply, have developed a very strong plan, one that we can expect will best meet our needs of retaining our skilled team members, delivering for our customers, and position us to increase production later than planned in 2022 to meet the high demand of orders we expect to book and expect to deliver in 2023.

We are confident that we will receive significant shipments of these modules in August, both for our existing module and the next-generation alternative module that we are developing, but we'll be closely monitoring this issue to ensure there are no additional surprises.

We meet weekly with both our module supplier and their microprocessor supplier to ensure there are no changes to this planned delivery schedule. If we see any signs that there are deviations that would push module availability beyond August, we will reassess our production rates and respond appropriately. The result of this plan is temporary buildup of work in process. But, as Pipasu will detail later in the call, we have more than sufficient liquidity to support that temporary investment.

Now turning to Slide 10. On this chart, we show our backlog in our first quarter 2022 deliveries. We saw another quarter of backlog growth, as I mentioned earlier, with firm orders now representing 46% of our backlog and option backlog now extending into 2026, providing both near- and longer-term visibility.

We are specifically encouraged to see the percentage of our backlog from low-floor and medium-duty products grow in this quarter. At the bottom of the slide, you can see that all of our segments experienced a year-over-year delivery decline. This reflects the supply chain realities that we saw in 2022 and that we did not have in 2021, or at least the first 3 quarters of 2021.

On Slide 11, we provide some context on the impact of inflation on our backlog, a question we have received lots of in the last couple of weeks. Generally, our firm orders are manufactured and delivered within 12 to 18 months of contract award. When we make our original bid, we will obtain pricing for approximately 50% of our vehicles' components from our suppliers as they are often specified by that customer, in some cases, by supplier name.

For many other nonspecified components, we will use external and internal sources like Carfair for our own fiberglass or KMG for things like metalworks, electrical kit assembly and plastic thermal forming. We make estimates for inflation between the time of award and manufacturing our contracts. And, given the rapidly increasing levels of inflation and surcharges being passed on to us from suppliers, actual costs have now exceeded our estimates on some of the firm contracts that were bid prior to this year.

For the contracts impacted by this, we are discussing pricing adjustments with our customers, and we're also negotiating relief where possible with our suppliers. There will be cases where we are successful and we have some already, but we expect that, on certain contracts, we will experience lower margins from these higher input costs.

For programs that are currently being bid, we have increased the inflation adjustment in our contracts to reflect the macro environment and the reality of increased pricing and surcharges that we see from the supplier community.

Option orders are a different situation. The majority of our option orders when a customer executes an option that is under contract and in backlog, there is a repricing that factors in a producer price index, or a PPI for short, or some other similar type of escalation or inflation instrument. The PPI or its equivalent is prepared by the governments in the various jurisdictions and calculates the average movement in prices from production over time. Essentially, its purpose is to reflect the reality of inflation. ininflation.inflation.

In that sense, the contracts that have a PPI adjustment will add a pricing increase when the option is awarded. This contract cause helps us include the impact of inflation in future and protects our margins from downside inflationary pressures. Unfortunately, there is a time lag which is affecting us right now.

On the slide, we highlight the rate increase of what is called PPI 1413 for truck and bus bodies that is generally used for our U.S. contracts. In the aftermarket business, we have had some exposure to inflation on contractual sales, but the majority of our parts sales are transactional in nature, meaning we can reprice based on the last input costs from our suppliers.

With that, I'll now turn it over to Pipasu to summarize the quarter. Over to you, Pipasu.

Pipasu Soni: Thanks, Paul. Turning to Slide 12, we highlight some of our key metrics. As Paul mentioned, the quarter saw significant challenges from supply chain disruption, the ongoing COVID-19 pandemic, heightened inflation, lower production and overhead cost absorption. In summary:

- Sales were down 20%
- Adj. EBITDA was negative $16.9 million, with positive Adjusted EBITDA in the Aftermarket segment offset by negative Adjusted EBITDA in the Manufacturing segment
- Negative EPS and Adjusted EPS of $0.36/per share and $0.55/per share respectively

Our ending liquidity was strong at $649 million, an improvement of over $300 million from the first quarter of 2021. Liquidity was down from the fourth quarter of 2021, representing typical seasonality patterns and a slight increase in working process inventory buildup stemming from supply disruption and weather events delaying shipments.

On Slide 13, we reconcile net earnings to adjusted net earnings. In the quarter, we had a large fair market value gain from our interest rate swaps. We currently have two swaps in place, one for $560 million at 2.27% and another for $200 million at 0.24%. With increases in base interest rates in Canada and the U.S., we had a gain for which we normalize.

Turning to Slide 14. I want to provide a summary of our covenant amendment discussions. As we outlined on our call last Friday, we are in detailed negotiations with the leads of our banking syndicates to develop a plan that addresses our needs with more appropriate covenants. This has taken longer than we expected as we prepared our plan to address module shortages that Paul discussed earlier.

We currently have over $600 million of liquidity and anticipate that we will need up to $200 million of that for work-in-process inventory in the second and third quarter as we work through our build and hold plan related to module shortages. We expect to unwind the work-in-process inventory before the end of the year and anticipate returning to over $600 million in liquidity by the fourth quarter.

We anticipate that we will be able to achieve a suitable credit amendment program within the second quarter of 2022 and will inform the market when it is complete. We are confident that we have sufficient capital to navigate through these immediate supply challenges and do not currently contemplate the need to issue additional equity.

On Slide 15, we provide a brief update on NFI Forward. With first quarter 2022 Adjusted EBITDA savings of $60 million and an additional $4 million in free cash flow savings, we now have an annualized Adjusted EBITDA run rate of approximately $63 million, well on our way to achieving our $67 million target. The majority of our savings generated so far have come from overhead and SG&A reductions and we are now focused on additional sourcing and supply savings. Some of these are linked to volume and, even with the challenges in 2022, we still expect to realize our $67 million target.

As we've made great strides with these projects, we are now looking to NFI Forward 2.0, and other series of initiatives aimed at lowering our cost base and driving additional free cash flow generation. Given the current supply chain environment, management has focused its efforts on production and delivery, but we did make progress on the first NFI Forward 2.0 initiative with the announcement of a closure of another U.S. plant distribution facility, the original NABI warehouse in Delaware, Ohio.

Slide 16 finds our guidance for 2022. We adjusted this guidance last week to reflect year-to-date results and the impacts of module shortages and heightened inflation on our operations. As outlined on the slide, we anticipate $2.3 billion to $2.6 billion in revenue, with 20% to 25% of manufacturing sales coming from ZEB's; Adjusted EBITDA of $15 million to $45 million; and cash capital expenditures of approximately $25 million to $35 million.

We expect that the second and third quarters will see negative Adjusted EBITDA. The fourth quarter, however, is forecasted to deliver positive Adjusted EBITDA as we ship buses that were missing modules benefit from improved battery supply and see the typical strong seasonality of ADL and MCI.

I'll now turn the call over to Paul to summarize our outlook.

Paul Soubry: Thanks, Pipasu. I'm now on Slide 17. As we noted, our public bid universe continues to grow, and we now have over 6,300 EUs of bids submitted, which will drive new orders and awards in the coming months. Longer term, we will see over 20,000 EUs of potential opportunities over the next 5 years. In total, our public bid universe is 26,371 EUs with 43% of those being zero-emission.

On Slide 18, while our deliveries have been suppressed by supply chain disruptions, our book-to-bill has grown with another quarter above 100%, positioning us well for the future. You've consistently heard from us that one of the driving factors in vehicle procurement is reliable, multiyear government funding.

On Slide 19, we summarize the major investments being made into public transit by governments in all of our core markets. We've recapped these numbers before, so I won't go through them in detail now, but I will highlight several recent developments from the first quarter.

In the United States, which is our largest single market, the Low or No Emissions Grant program was opened up in March of 2022. This program can provide up to 100% of the cost of a zero-emission bus and associated charging infrastructure for a public transit agency.

In 2021, the program had a total commitment of $185 million. And in 2022, it's now $1.1 billion, for an increase of almost 500%, reflecting the administration's view, the need for public transit for everyone, the need to reduce congestion in cities, and the need to drive the zero-emission agenda. While NFI was leading the ZEB manufacturing partner for transit agencies using Low or No grants in 2021, we anticipate another strong year at the significantly higher funding levels.

In Canada, it was recently announced that there will be a $450 million investment into zero-emission transit in Brampton through the Canadian Infrastructure Bank. And, in Quebec, the federal and provincial governments are rolling out a combined $5 billion program. NFI will be actively monitoring those opportunities and hopes to secure a significant portion of those orders.

In the United Kingdom, £62 million of funding was awarded to bus operators for the Phase 1 of the ScotZEB program. The ScotZEB fund is designed to encourage the market to implement new and end of ways to finance and deploy zero-emission buses. ADL has been a successful proponent with numerous customers and partners throughout this program.

Turning to Slide 20. We recap and reinforce our 2025 financial targets. We received questions on our confidence in these objectives given the recent operating climate. And I can say that the entire NFI management team and Board remains committed to delivering on those goals. The achievement of these targets does not require fundamental change to our business as we have the facilities, the product portfolio, the services, and the team required to achieve them.

With improvement in supply chain, which isn't going to happen overnight, we see a clear path to $400 million to $450 million of Adjusted EBITDA by 2025, coming from the growth of zero-emission bus sales, additional contributions from ARBOC and ADL, which were acquired previous to the pandemic and continued strong performance of our aftermarket business and realization of NFI Forward savings, which, as you just heard from Pipasu, we are already close to our $67 million cost reduction target.

Finally, on Slide 21, we recap the investment thesis on NFI. While the past two years have been extremely challenging and require that we revise our guidance and recovery expectations, we remain focused on the long term and on delivery for our stakeholders. We feel that our current share price does not reflect the true value of NFI's market-leading products, services, capabilities and competitive position. No question, there are a headwinds in front of us, but the tailwinds continue to grow every day.

Whether it's new orders, increased bid activity, recovery of private travel through motor coach operators, rising ridership rates, the lifting of various COVID-19 mandates, the role that have governed a significant and historic government funding for the continued advancement of our zero-emission leadership strategy, NFI is extremely well positioned as a company, and we have the right products and right services for today and for the future.

The global COVID-19 pandemic and the resulting global turmoil significantly impacted our business. We had over 2,500 team members test positive for COVID-19 since March 2020, making the custom manufacturing of buses in close quarters very challenging and something that, unfortunately, you cannot build a bus from home. Given the bespoke engineered-to-order nature of our vehicles, we integrated innovative products and technologies from numerous suppliers to create market-leading buses and coaches. David White and his supply team have always managed a challenging supply chain environment given the bespoke nature of our product. But, quite frankly, it has been one of our strengths and a key competitive advantage to our success historically.

Since mid-2021, we've had numerous supplier disruptions and part crisis that our team have successfully mitigated. The module situation described earlier on today's call is seriously disruptive, but I'm confident that our supply and operations team will manage through it. I've even had people call me and ask why we haven't dual-sourced micro processes or modules. Some of you suggested we should make our own microchips.

Let me provide some additional context. We integrate components from more than 40 suppliers that require electric controllers or chips utilizing printed circuit boards that have microprocessors on them. Each of these suppliers or their sub-suppliers design and select the microprocessors to meet the particular needs of their proprietary products.

In all of our years of operations, we have never directly bought a microprocessor before. We're working up to four levels down in our supply chain now, sourcing and purchasing materials, something we've never had to do before. I was told yesterday that there are over 1 million cars already built in the United States that are finished and sitting in delivery lots waiting for parts that have chips missing in them. We're not alone in dealing with this global supply disruption.

Let me be clear, though. This latest challenge is not fatal, but it does represent yet another significant roadblock that we'll need to drive around. No doubt, we'll see more supply curve balls in the year ahead, but the entire NFI team is focused on the task at hand and ready to execute.

Our people all across our business in Canada, the United States, the U.K. and Asia at all levels and functions from engineering, supply chain, finance, customer programs, shop floor technicians, quality and have all shown their resiliency and ability to adapt. Their loyalty is amazing. We've asked them to start, stop, go home, come back, hurry up and so forth over the last two years. I have no doubt our team will manage through these hurdles.

We're excited about the path we're on and the future in front of us. We lead this industry, and that will continue. We're also leading the evolution to zero-emission buses. Bottom line is we will be prudent stewards of the capital, and we'll execute on our plans, working through the supply chain disruption and we will pray NFI for recovery in 2023 and beyond. We will not jeopardize our business, our people for our future.

I'd now like to turn the call over to the Chair of the NFI Group Board, the Honorable Brian Tobin to wrap things up and then after that, we'll move to the Q&A. Over to you, Brian.

Brian Tobin: Thank you very much, Paul. Well, I acknowledge that it's not typical for a Board Chair to comment during a quarterly conference call, given the significant events taking place today and over the last days, I thought it would be prudent to join the call today. And let me just begin by saying that when Paul advised me as Board Chair that he had a very serious medical issue that he was going to have to attend to, on behalf of the Board, I suggested to Paul that he take an immediate leave. And I just want to acknowledge Paul, as is typical for Paul and the leadership that he provides said, no, I'm going to stay. I'm going to work through the challenges we faced last week. And as you know, we updated our guidance last week. And of course, we've got the AGM this week, which is today, and I want to help you accomplish a very smooth transition to interim leadership.

A very selfless act on Paul's part, but a very vital one to ensuring what is really and has been a very smooth transition. I want to acknowledge that. And, Paul, I want to publicly thank you for that dedication and that contribution. The Board obviously and clearly fully supports Paul's request to take this medical leave and we wish him the best as he focuses on his health.

We have complete confidence in the strong management team that Paul Soubry has built, which includes standalone leadership of each business unit. It's a complex business we're in at the best of times, and, following a two-year global pandemic, combined with the global supply chain and logistics dynamics, we know and we're confident that this management team remains laser-focused on executing its operating plan and will continue to be the market leader in the bus and motor coach industry.

I want to say clearly that our entire Board and, yes, the entire leadership team saw Brian Dewsnup as the right choice for Interim President and CEO as he has a deep track record within our Company, having worked as an executive, as Paul pointed out earlier, in both the manufacturing and the aftermarket segments. He holds relationships with key customers and suppliers. And Brian enjoys a very strong track record of success.

During Paul's absence, I will also increase my involvement with the Company and participate regularly in management meetings and update calls. Indeed, I went to Winnipeg and had a chance to meet with the full senior management team just a few days ago. My goal is to ensure that Brian has strong support as we work through these turbulent times and prepare NFI for the future, where we see numerous opportunities for growth, financial performance and strong shareholder returns.

We know that Brian Dewsnup and the entire NFI executive team are well positioned to continue to implement the business strategy and run day-to-day operations while Paul is away. And we look forward to the day when Paul Soubry is back on the chair.

Let me take this opportunity as well to thank John Marinucci, prior President and CEO of New Flyer, served as a member of the NFI Board since 2005 for his service and retires at today's Annual General Meeting. John has been a great leader and has made great contributions to NFI for over 20 years.

And I'm also happy to welcome later today, we'll do so now, is Wendy Kei who is being nominated to the NFI Board at the company's 2022 AGM. Ms. Kei is an accomplished business professional, Chair of OPG today, was recently honored as a fellow from the Institute of Corporate Directors and as a fellow charter professional accountant. We're excited to have Wendy join our Board, and we look forward to adding our expertise in finance and corporate governance and audit leadership.

And as a final word from me, I'd like to thank my fellow shareholders, including our two largest shareholders, Coliseum Capital Management and Marcopolo, for their continued support of NFI during these challenging times. On behalf of both Coliseum and Marcopolo, Adam Gray and Paulo Nunes continue to serve on NFI's Boards, we will get through these near-term issues, and I look forward, and, in fact I'm confident, that we'll see NFI's strong success as it capitalizes on the numerous tailwinds that will drive our success.

And with those comments, I'll now hand it back over to Stephen King to provide directions for the Q&A portion of this call. Stephen.

Stephen King: Thanks, Brian. Just a reminder, everyone, our AGM is today at 1 p.m. EST. Details on how to participate can be found on the Company's website. We'll now open the call for analyst questions. In addition, if you have a questions and you're on the webcast, you can type that in, and we will read those aloud. Adrianne, please provide instructions to our callers and open the line for questions.

QUESTIONS AND ANSWERS

Operator: (Operator Instructions) We do have Chris Murray from ATB Capital Markets.

Chris Murray: Yes. And Paul, let me offer my best wishes for a speedy return.

Paul Soubry: Thanks, Chris.

Chris Murray: My first question is just thinking about maybe the cadence as we kind of get between here and the end of the year. I mean you talked about negative numbers, negative EBITDA numbers from manufacturing or I guess some transit bus manufacturer more specifically, certainly looks like the aftermarket business is going to be okay. Can you maybe walk us through in a little more granularity how to think about the EBITDA progression quarter-to-quarter as we get to Q4?

Because I guess what I'm trying to understand is we have bit of a negative number in Q1, maybe more than we would have thought. Are we expecting a pretty substantial number down in Q2 because you won't have modules to ship? Is there any color you can give us on just what that pattern is going to look like over the next couple of quarters just to try to maybe take some volatility out of things?

Paul Soubry: Thanks, Chris, and thanks for your kind words. As you know, New Flyer is the single largest part of our entire company. And, of course, surrounded by what happens at ADL and in MCI and ARBOC and then, of course, as you mentioned, the Parts business is good. The reality of New Flyer is that this module issue right now has started to affect our deliveries. We are literally building buses. And, as I described in my explanation, we're going to finish those buses, pull the modules off and build another bus. Our deliveries through the second quarter and the third quarter at New Flyer are going to be seriously disruptive.

Now what David and Chris are working on with our module supplier and the chips provider is an aggressive schedule that we have with them, a defined schedule now when we'll get those modules. But once we get the modules, put them into a parked bus, that is 4 or 5 hours. That bus doesn't go in a FedEx package. We have to actually get final sign off by a customer, and we have to deliver that bus all around North America, which doesn't happen overnight. So, we've got a schedule now of two things happening. A: the burn down of the whip that we create; B: ramp up of what we expected to actually build in this year.

As I've described many times, in Chris' case on New Flyer, it's not a demand issue, the schedule, the slots, the build slots are effectively all sold. It's a matter of being very diligent at the pace at which we burn down as well as wrap up the continued build. And Chris is laser-focused on trying to get that to a reasonable run rate by the end of the year because our current schedule for 2023 is actually filling up faster than we've probably ever seen. So, we're in a really good place from that perspective. You're going to see muted revenue rec and their earnings through Q2 and into Q3. And then, of course, Q4 is going to balloon. We've got regular deliveries, regular performance of the rest of the business, plus the catch-up delivery of those modules.

If we're able to secure some of those modules earlier, you may see a third quarter that looks better than we're currently projecting. But, again, that would be imprudent at this point because we don't have the modules in our hand just yet. So ,I'll ask Pipasu to add any other color. Again, of course, we're trying to be heavily sensitive to a prudent forecast for both our customers who are waiting for their buses, our employees who are trying to figure out the production schedule and the reality is on their impact, but also the results for our investors. Pipasu, any color you want to add?

Pipasu Soni: Yes. The only thing I would add is, again, as you know, we both said negative for Q2 and Q3, but we do expect as we do some of the deliveries in Q3, Q3 will be better than Q2 is kind of the best we can at this stage from a guidance perspective because as you know, we don't give quarterly guidance. Stephen, anything else you want to add to that?

Stephen King: Yes. I mean I think you guys covered it. Like we said in our guidance, first 3 quarters will be negative is our expectation as we sit here today. And then as Paul mentioned, the fourth quarter busy period as well in addition to the buses, we'll get out of WIP, that's typically MCI private coach's busiest period and Alexander Dennis' in the U.K., that's usually their busiest period as well. So that's part of the reason, like Paul just mentioned, will be that catch-up plus the normal kind of cadence of when we see deliveries in the fourth quarter.

Chris Murray: Okay. My other question is just looking at some of your competitors. It's kind of interesting. One of your major competitors seems to be going through some challenges probably similar to some of the challenges you guys are seeing, but their bookings are seeming to drop off and their parent is maybe backing out. I'm not sure Paul or Brian, I mean, you both have sort of experience in going through these market disruptions where competitors come and go and leave the market. And there's been a couple of cycles of, one, New Flyer ended up actually buying, I think, a number of the folks, we went through something similar early in the 2000s.

Just what are your thoughts about additional concentration in the business? I know it was kind of interesting, you guys won the TTC order, which was historically one of their primary customers, but then they just run on an order in New York. So just thoughts about the state of the competition right now would be helpful, especially as we move back into 2023.

Paul Soubry: Sure. It's a really good question, Chris. And of course, as you know, each of those markets is not homogeneous. So let me be a little bit long-winded to give you color. First, let's start with the parts business. We are the biggest player by far in the marketplace. And what Brian has done in the last number of years has consolidated all of our parts businesses through the one machine in North America. He's also expanded his basket. We don't just sell NFI Parts for buses. We sell parts for competitive buses. He's also added the cutaway space to that, and he's also continuing to support the Alexander Dennis buses in North America. And of course, Paul Davies has done much of the same internationally.

The ARBOC business is an interesting one. In the cutaway space, there's 15,000, 16,000 units delivered in a normal year, and you have one very, very large player that makes high floor buses called Forest River. And Forest, of course, is a Berkshire Hathaway company. ARBOC has two things. It has a low floor cutaway, but it also has a medium-class vehicle. That market in the low-floor cutaway is severely hampered by chassis supply that comes from Ford or GM and so forth.

And, so, Doug Minix that runs that business, his order book is about 3.5x what is current production rate is in cutaways because we just can't get the chassis that we need, which is why the launch of the medium-class vehicle and our other product developments to create more that rely on our own chassis are great. We're in a very unique place in that low floor space.

In the MCI world, as you're referring to Prevost, which is a Volvo company, recently announced that they're backing out of the Buy America marketplace, meaning public motor coaches that are sold to operators like New Jersey or New York or others; they are not no longer going to play in that space, which leaves new MCI really as a sole provider. There's a couple of large RFPs that are either on the street or coming out that reflect that space that should allow us to be pretty successful.

In the private motor coach space, there really hasn't been much movement to people coming or going. We've all been dramatically impacted on the ability to secure private orders. Although you've seen in some of our materials, you've seen in some of our comments today, the private motor coach, the movement of people in Canada and the United States is starting to recover.

In fact, in Paul Davies' case, motor coach in the U.K. is starting to recover. But it is not a snapback. It's a slow progressive return, which is why Chris restarted his private market MCI motor coach production in the first quarter of this year. But we haven't seen a change in entrants or change in players other than that public motor coach issue with Prevost exiting the market.

In the transit space, in North America, New Flyer is the leader, the 45%+ market share. We have seen our friends at Volvo struggle (Nova Bus), which is owned by Volvo Truck & Bus, struggle like we have with parts supply. In fact, a number of the parts that are spec'd by customers or bought from the same suppliers. Yes, we have different module suppliers. We have different plc system suppliers.

We have other things that are different, but we're all impacted ultimately by that macro supply chain dynamic. We've seen Nova be aggressive in some places in the Toronto competition that you referred to. New Flyer was awarded 100% of the 60-foot articulated buses and half of the 40-foot and Novo got the other half of the 40-foot.

Gillig is a privately held business, very successful; dealing in some cases with a different customer base, in some cases, with the same. We validated and confirmed Gillig dealing with the same supply issues and has the same issues in their ability to deliver. The zero-emission space, as we talked a lot today, continues to try and get traction.

We have everybody now playing; all of the conventional guys plus the start-ups like a company like Arrival, although Arrival has not delivered vehicles yet. Arrival is struggling from our research on their ability to actually bring demos to market. And, of course, Arrival also has a dynamic of a Russian ownership and so forth associated with it.

And then there's our friends at Proterra, which has done a remarkable SPAC transaction, who now is not just a bus company. It's a battery company as well as an energy kind of system and infrastructure play. Proterra continues to win their share in certain places. I wouldn't suggest that we're in a situation today, Chris, where we're going to see much more consolidation. And, in fact, back to our strategy, the same buses now with zero-emission, whether it's trolley-electric, battery-electric or fuel cell-electric. So, a complementary offering to offer the same customers from a support and service perspective.

And then, of course, the bolt-on of our infrastructure solutions that helps our customers put in that entire kind of ecosystem or ecosystem to help support. I don't think you're going to see consolidation in the short term. We're all dealing with dramatic issues. The good news is the market demand is there. Hopefully, all that helps.

Chris Murray: Yes. Just the other question or the other piece of that, and I guess just a follow-up. Do you see the risk of anybody forced to exit the market?

Paul Soubry: Well, if I do the answer to that, I guess I'd be in Vegas right now. But we don't know. We saw the Prevost removal themselves from the public market, which is a positive for our business. I'm not sure if we're have enough intel to really know whether anybody can exit in the short term. I guess it's always possible. We've seen that historically.

Chris Murray: Okay. And Paul, I look forward to speaking with you hopefully soon.

Paul Soubry: Thanks, Chris.

Operator: And our next question comes from Cameron Doerksen from National Bank Financial.

Cameron Doerksen: And let me echo my best wishes to you, Paul. Hopefully, we will see you back very soon.

Paul Soubry: Thanks, Cameron.

Cameron Doerksen: I just want to follow up on maybe some of the covenant questions. I mean I know that came up last week. It sounds like you're obviously still very confident that you'll get the covenant relief here. And I know it's really just a calculation issue. But I'm just wondering, I guess, maybe you can discuss the nature of the tax and then what is sort of being requested from the lending syndicate side. I mean, obviously, there's probably a quid pro quo here of some sort, if they're going to extend covenant relief. What should we expect in that you'll have to give, maybe some higher interest rates? Or just anything you can discuss on that front?

Paul Soubry: Well, let me give you the tone of the discussion and then Pipasu can walk you through because he and Jason Pellaers, our VP of Finance, are really championing the dialogue. So, we start the year. We have a plan to ramp up our business. We have a covenant package that we think we could live with. The reality of the supply chain starts to really, as we've described, kick us and anything with electric -- where the micro processer or any kind of electronics really starts to kick in.

So, in March, as we're in deep conversations with our syndicate, we have to tell the world, we got to revise our guidance for the year. The syndicate led by BNS and with the other three major players, BMO, National Bank and CIBC working through the realities of what this means. The module dynamic that just happened really set back those conversations, not in terms of cooperation, but just terms of the reality of what we thought the rest of the year forecast would look like.

And, so, trying to ram through a credit package without really having a plan of how to march through this module dynamic would be irresponsible from our perspective or from the syndicate. A couple of weeks ago, we were in Toronto. We had some really good conversations. We've been incredibly transparent with that team, the syndicate partners to explain kind of where we're at, what the issues are, what the recovery looks like, what that means for cash flow. We use the simple words that we have a math problem, not a liquidity problem.

When we look at actually surging our working capital for a couple of months to do this module swapping dynamic, we don't believe we're in a situation we need additional equity to our business. What we need is a package that allows that temporary growth of work-in-process. I think one of the key issues from the bank's perspective is that WIP is not stuff going on a shelf somewhere. That's contractually built, sold work-in-process or future sales work in process for a specific customer to their specification. There's not a concern of whether we're going to sell that bus. It's just a matter of timing.

So we, with the support of the syndicate and term sheets that continue to get evolved and developed are working through that right now. And of course, the good news is there are 11 members in the syndicate that have shared risk and diversified risk. We think it's irresponsible to try and ran something through that really doesn't have the support from the full syndicate.

As far as quid pro quo, Cam, I'm not so sure we've seen anything that I would say are roadblocks or showstoppers on our end. Will there be a change ultimately in some of the interest rates? Potentially. Will there be different types of covenants that get added to that package as we march through this work in process? Possibly. But they've been really supportive to help us understand this. It's not a going concern issue. It's a timing dynamic. Pipasu add to the latest conversations you've had with the syndicate?

Pipasu Soni: No, I think, first of all, Paul, well said, I think our biggest thing is there's probably a few things. Number one is, to Paul's point, the banks have been very supportive, especially our top four. And our big thing here is, obviously, we can get majority consent, but we're looking to get everybody on board, which is obviously the other members of our syndicate.

So that's number one. Number two is they do understand our problem. And one of the things that they're looking at is that a lot of our buses, especially with the plan that Paul had provided with the module plan that we had provided, they understand that our buses are 99.5% complete and they do see that we have an extremely strong order book. So, that's been extremely good.

And then the last few things I'll just kind of mention just so we can go to next question is the raises. I just want to remind everyone that the raises that we did in 2021 helped derisk the banks and the backlog and orders are growing extremely well, and the banks have realized that. So, I think when Paul joined us in Toronto with the four key banks, it really kind of eased their mind to understand what the issues were, and we did get an initial term sheet at the end of this quarter that gives us really comfort that we should be able to get this deal done before Q2 is over. So, Paul, back to you. Hopefully, that helps, Cam?

Operator: And we have no further questions in the queue.

Stephen King: Okay. Well, thanks, everyone, for joining. And again, a reminder that our AGM is today at 1:00 p.m. EST. For anybody that's interested to attend, details are on our website. And at any time, do not hesitate to reach out to myself with any questions. Thanks, and have a great day.

Operator: Thank you, ladies and gentlemen. This concludes today's conference call. Thank you for participating. You may now disconnect.