NFI Group (2024 Q1 Results)

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Corporate Speakers:

- Stephen King; NFI Group; Vice President, Strategy & Investor Relations
- Paul Soubry; NFI Group; President and Chief Executive Officer
- Brian Dewsnup; NFI Group; Executive Vice President, Finance and Chief Financial Officer

Participants:

- Chris Murray; ATB Capital Markets; Analyst
- Jonathan Mossiagin; CIBC; Associate
- Daryl Young; Stifel; Analyst

PRESENTATION

Operator^ Good day, ladies and gentlemen. Thank you for standing by. Welcome to NFI Group’s First Quarter 2024 Conference Call. (Operator Instructions) Please note that today's conference is being recorded. I will now hand the conference over to your host, Stephen King, Vice President of Strategy and Investor Relations. Please go ahead.

Stephen King^ Thank you, Livia. Good morning, everyone. This is Stephen King speaking. Joining me today are Paul Soubry, President and Chief Executive Officer; and Brian Dewsnup, Executive Vice President, Finance and Chief Financial Officer. On today's call, Paul and Brian will provide an update on our financial results, the operating environment, market demand and our outlook.

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 move through the presentation.

Starting with Slide 2, as 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 uncertainties.

Should any one or more of these uncertainties realize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected.

In addition, certain financial measures we reference today are not recognized earnings measures and do not have standardized meanings by International Financial Reporting Standards, or IFRS.

We advise listeners to review the risk factors, financial definitions and non-IFRS measure statements found in our 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 reporting currency, and all amounts referred to are in U.S. dollars unless otherwise noted.

On Slide 3, we've included some key terms and definitions referred to in this presentation. Of note, zero-emission buses, or ZEBs, consist of battery electric, hydrogen fuel cell-electric, and trolley-electric buses; equivalent units, or EUs, is a term we use for both production slots delivery statistics. Slides 4, 5 and 6 provide a brief overview of our Company.

For those interested in a more in-depth introduction to our business, including our mission, vision, and ESG-related materials, please visit the Investor section of our website. In short, NFI Group is a global independent bus and motor coach solution provider that is leading the evolution to zero-emission mobility.

We are purpose-driven, and NFI exist to build vehicles that move the world's most precious car people. Slide 7 provides NFI's latest zero-emission statistics. Since 2015, NFI has delivered over 3,800 EUs of ZEBs that have completed over 180 million electric service miles in more than 150 cities in six countries.

Our Infrastructure Solutions team has also delivered over 475 charters totaling 75 megawatts of charging capacity since 2018.

Demand for ZEBs continues to accelerate with a record 39% of our backlog being ZEBs. Based on our analysis, more than 50% of anticipated North American transit customer purchases over the next five years will be electric vehicles. We continue to project that at least 40% of our 2025 deliveries will be ZEBs. I'll now pass it over to Paul to walk us through an overview of results for 2024 Q1.

Paul Soubry^ Thanks, Stephen and good morning, everyone. Thanks for joining us today. I'm really pleased to report we're very happy with our Q1 performance and, in fact, exceeded our internal plan. On Slide 9, we provide a summary of our first quarter results for 2024.

Our financial results show continued positive improvement in our seasonally slowest quarter with double-digit growth in vehicle deliveries and revenue, significant improvement in margin performance and a record total backlog of value now at nearly USD $12 billion.

As expected, legacy inflation-impacted deliveries had a negative impact on our quarterly risks. We knew this would happen. We have completed the majority of all those

remaining contracts, which will help drive further margin improvement as we move through the year and into 2025.

On the demand front, we saw record orders in the first quarter, with 5,421 equivalent units, or EUs, added to backlog. This resulted in a year-over-year increase of new orders of 189% and a trailing 12-month book-to-bill ratio of 117%.

Our option backlog conversion rate also showed recovery, now reaching 49% for the first quarter of 2024. Year-over-year, buses deliveries were up 42%, quarterly revenue was up 38%, and Adjusted EBITDA was up 360%. Gross margins within the Manufacturing segment were up 520 basis points, reflecting an improvement in vehicle manufacturing efficiency and line entry rates while still being impacted by legacy contracts.

Our Aftermarket segment delivered yet another quarter of record performance with $160 million in revenue, up 15% year-over-year, and $38 million of Adjusted EBITDA, up 27% year-over-year.

These results were primarily driven by increased volume of North America, by pricing improvements and by enhancing our product mix.

As mentioned, NFI's backlog has now reached a record $11.7 billion, consisting of over 14,750 equivalent units. The average selling price for our vehicles in the backlog also increased by 19% year-over-year, reflecting a higher portion of zero-emission vehicles and the pricing action we've taken in contracts from mid-2022 onwards to reflect the impacts of inflation and preferential product mix.

We added several majors during the quarter, including the largest combined order ever at our Company, of up to 3,090 equivalent units or 2,090 buses, through two contracts from the New York City Transit Authority.

Our focus on working capital management was another bright spot with improvements in working capital days both year-over-year and sequentially from the fourth quarter of 2023.

This helped us maintain a strong quarter end liquidity position even as we increased inventory balances to improve production efficiencies and with increased production rates.

On Slide 10, we show our quarterly inventory balances compared to the line entry rates. Line entry rate saw an increase of 19% from the fourth quarter of 2023, reflecting our ongoing production ramp up

We project line entries will continue to show increases in 2024 as we ramp up to meet our production demand and reproduction efficiencies. The ramp-up will be a phased approach, as we've always said, matching consistent supplier performance with labour availability and our customers' ability to inspect and accept vehicles.

We are being measured as we ramp up to ensure that we do not build up off-line buses, as they generate significant rectification and interest costs and require significant investments in work-in-process inventory.

Inventory balances were up $25 million, with work-in-process and finished goods increasing slightly, reflecting higher vehicle input costs.

We also saw some customer acceptance delays impacting certain deliveries that were planned for the end of the quarter, pushing them into the second quarter. That happens nearly every quarter.

Our raw material inventory balances came down in the quarter, but remained elevated driven by higher input costs for electric vehicle components and from the carrying of safety stocks reflected in our supply chain performance.

As our supply chain health improves, and we continue to reduce high risk suppliers, we anticipate we'll be able to lower these additional safety stock levels.

We are very pleased with our performance across the business in the first quarter, and we delivered to our targets, which sets us up well for the rest of this year. I'll now ask Brian Dewsnup to walk us through the highlights of our first quarter results and provide some insights into our outlook.

Brian Dewsnup^ Thanks, Paul. I'm now 60 days into my new role as the CFO, and I'm pleased to report it's been a great experience so far. We have great financial and accounting teams across our business, and I'm excited about the outlook in the future of NFI.

I also report that we've completed our search for my replacement as a President of NFI Parts and ARBOC, and I’m delighted to say that our target candidate, who is an experienced business leader and currently a chief executive officer, has accepted our offer, and we look forward to making a formal announcement in the near term. Picking up on Slide 11.

Our multi-year backlog remains strong with a significant increase in option orders, which now extend all the way out to 2029. Year-over-year, we saw heavy-duty transit bus deliveries up 67%, low-floor cutaway and medium-duty deliveries were up 6% year-over-year, primarily driven by cutaway volumes.

Coach deliveries were down slightly, which is typical during this time of the year. Turning to Slide 12. Overall gross margin improved year-over-year to 9.5%, up from 6.9%. The Aftermarket gross margin percentage was essentially flat year-over-year. Manufacturing gross margins improved year-over-year to 3.7% as compared to (1.5%) in the first quarter of 2023.

Margins are down sequentially, reflecting a typical seasonality profile of a slower Q1, as well as delays in certain deliveries moving into the second quarter of 2024.

We anticipate that manufacturing margins will see a significant improvement as we move through 2024, driven by improved production efficiencies, fewer inflation impacted contracts, and stronger pricing on contracts bid in 2023 and 2024.

On Slide 13, we provided a chart showing segment Adjusted EBITDA dating back to 2020. The manufacturing segment was down slightly on a sequential basis as compared to the fourth quarter of 2023, which reflects our typical Q1 low seasonality combined with the impacts of geographic and production mix. Certain deliveries moved in the second quarter of 2024, as well.

The Aftermarket segment delivered a record quarter at $38 million. On Slide 14, Free Cash Flow saw a 26% improvement from the same period in 2023, to ($21 million), but was down from the fourth quarter of 2023.

Free Cash Flow benefitted from increased cash generated from operating activities, offset by higher interest expense and cash capital expenditures. We saw positive cash generation from working capital of $9.6 million, given the increase in deferred revenue mentioned earlier.

Our Total Liquidity ended at $166 million, down from $188 million as of the end of 2023, and up from $124 million in the first quarter of 2023. Total Liquidity was slightly impacted negatively by our volume ramp-up, but positively impacted by the same items as Free Cash Flow. The net result being draws on our North American and U.K. secured facilities.

On Slide 15, our net quarterly loss of ($9 million) decreased by $37 million with higher deliveries, revenue, Adjusted EBITDA and unrealized gains offset by increases in interest and financing costs.

We provide a reconciliation from Net Loss to Adjusted Net Loss, normalizing for unrealized gains on foreign exchange, gains on the Cash Conversion Option on the convertible debentures, gains on our interest rate swap and other normalization adjustments including nonrecurring restructuring and past service and pension costs. I'll now turn the call back to Paul.

Paul Soubry^ Thanks, Brian. I'll now take this opportunity to provide some insights into where our business is today and give you some context for our outlook.

I'm now on Slide 17. Here, we highlight our new order activity for the quarter. As I previously mentioned, we had our highest new orders in our history, at 5,421 EUs, driving total orders LTM to 9,669 EUs. In addition, we also have 365 EUs in bid award pending at the end of the quarter., which we expect will convert to new awards in 2024.

On Slide 18, we always provide an update of what we call the bid universe, our key public demand metric for North America. Total active bids include 5,410 EUs, including 3,940 EUs where we have bids submitted and another 1,470 EUs that we're working on proposals for as we speak. Active bids declined in the quarter as we converted the large number of awards I referred to earlier with New York but also awards of New Jersey and other prominent customers.

Our 5-year customer bid forecast is now at 21,350 equivalent units, which, combined with the active bids just talked about, supports our view that bus and coach demand will continue to remain strong, reflecting a solid funding environment.

Slide 20. I'm going to provide a bit of a key market updates. First, in the United States, the FDA announced funding for their 2024 low or no emission grant program, which we refer to as Low-No.

This year, there are $1.1 billion in grants available for buses associated infrastructure. NFI had a record performance on last year's 2023 Low-No program, being the named partner on over $200 million of grants. We expect even stronger performance in 2024 given the recent changes to the competitive landscape in North America with one participant leaving the U.S. market, one closing their business, and one actively trying to recover after emerging from Chapter 11 with a new owner.

In United Kingdom, the Zero Emission Bus Regional Areas, or ZEBRA, program, continued to drive electric and fuel cell bus procurements.

The latest round of funding supports the procurement of 955 zero-emission vehicles, and we expect Alexander Dennis will benefit from this round of funding formerly called Zebra 2, as they have secured numerous contracts from the previous funding rounds.

Finally, I want to comment on the continued efforts to strengthen the bus manufacturing industry in the United States.

As advised earlier, on February 7th of this year, I presented at a White House Roundtable, and we discussed key recommendations for immediate changes to the U.S. bus contracts. This round table is followed by the immediate release from the FTA of what they call a "Dear Colleague letter," which clarified that U.S. transit agencies can award contracts with progress payment structures, they can complete price adjustments on legacy firm contracts, and they can include price indexing on new firm price contracts.

It also called for active efforts to try and reduce the amount of radical customization on new bus orders. We continue to advance our efforts on multiple fronts as outlined in the FTA guidance letter.

We're actively discussing pricing adjustments with a number of customers although the impact may not be as large as we only have a few legacy inflation impacted contracts remaining in our current backlog.

We also have actively progressing payment structures on both the existing and embedding in our newly bid contracts. We're now embedding contract labour price indexing on new orders wherever possible.

We project the FTA's guidance, and willingness of transit agencies, combined with our actions, should have a positive impact on our financial performance in future periods, especially as it relates to working capital investments.
Now turning to Slide 21. We are confident in reaffirming our 2024 financial guidance and our 2025 targets. For Fiscal 2024, we anticipate double-digit revenue growth, triple-digit Adjusted EBITDA growth, and improved Free Cash Flow.

We will see an increase in cash capital expenditures as we catch-up on some deferred maintenance and invest in continued product development and growth projects. We anticipate zero-emission buses to be 30% to 35% of our total deliveries in 2024, growing to over 40% in 2025.

We've also provided our 2025 targets, which include Adjusted EBITDA of greater than $350 million, and we expect to reach a $400 million annualized Adjusted EBITDA run rate by the fourth quarter of 2025. The multiyear growth in our financial projections is driven by a combination of volume recovery, production efficiencies, and improved product pricing and increased number of higher-margin zero-emission bus deliveries.

We also expect to deliver the majority of legacy inflated legacy inflation impacted contracts in the first half of 2024.

We have maintained our ROIC target of greater than 12% for 2025, with the potential for outperformance on this metric as we lower debt balances and see improvements in working capital investments and customer milestone payment support.

On Slide 22, we provide details on our total leverage covenants and debt maturity dates. The chart on the left provides our current total leverage of 7.8x, which is expected to decrease rapidly in 2024 and throughout 2025.

We provide our covenant requirements on the graph, and we project to be below those covered levels as we move through those periods. We provide this chart to provide directional expectations in how we think total leverage will significantly progress over the coming years.

In 2024, the majority of this leverage reduction is driven by Adjusted EBITDA growth, while in 2025 it is a combination of Adjusted EBITDA growth combined with strong Free Cash Flow generation to support debt repayment.

We could see even faster deleveraging based on progress made on bus manufacturing contract structures in the United States and our overall success in increasing customer deposits and milestone billings.

We provide details on our debt maturities to drive how we think about the balance sheet. The first major maturities are in April of 2026, when our senior secured North America and U.K. files mature, and our unsecured government loan facilities also mature at that time.

In January 2027, our 5%, $250 million convertible debentures mature. And, in August of 2028, our 14.5% second lien debt matures.

We are actively focused on lowering our interest expense, and, as we look at significant deleveraging in 2024 and 2025, we'll be looking to create financial flexibility and is by focusing on implementing lower cost debt structure in advance of our senior facilities maturing.

In April 2024, NFI and the Manitoba Development Corporation, or MDC, entered into an amended agreement on its existing Senior Unsecured Debt Facility reducing the fixed interest rate to 0% per annum, which was previously SOFR plus an applicable margin. Turning to Slide 23, we provide some directional commentary on our projected seasonality for 2024. The first quarter was in line with our expectations for a sequential decrease in Adjusted EBITDA. As the first quarter is typically our slowest period in private markets, it was also impeded by legacy price contracts we were well aware of. Based on the first quarter and a view that we'll deliver approximately 35% of our annual Adjusted EBITDA in the first half, this suggests a range of $156 million to $182 million of Adjusted EBITDA in the second half.

On this chart, we also highlight the direct growth in gross margin per EU (excluding depreciation and amortization) and manufacturing. As you can see on the chart, we had $4,630 of gross margin per EU. In 2023 Q1, this grew to $15,834. And now in 2024 Q1, it was $34,566.

As we move through 2024 and 2025, the directional growth is a near doubling of this metric and drive largely from our known and contracted backlog, reflecting good product mix, more volume efficiency improvements, and significantly better pricing. On Slide 24, we highlight the increasing average price of each unit in our total backlog.

This amount has increased for both heavy-duty transit buses (in dark blue) and motor coaches (in light blue). Year-over-year, heavy-duty buses were up 18%, while coaches were up 9%. These pricing changes were driven by a combination of higher zero-emission orders, inflation-adjusted pricing, and improved margins in our new contracts. This improved pricing environment supports our guidance and our targets for 2025.

Before we open up the call to Q&A, I just want to summarize where we're at. The first quarter was another major step in our recovery. We saw year-over-growth in all major financial metrics, and the aftermarket segment delivered another record quarter.

Our backlog achieved another record quarter at $11.7 billion, driven by our highest quarterly new awards ever. The quarter did have some drag from legacy impacted contracts, which we expected, but we have delivered nearly all of those remaining contracts. The operating environment at our company continues to see some challenges on certain areas in supply and some labor availability, two areas that we are actively managing.

While supplier performance has seen significant improvement, some high-risk suppliers remain in plastics, seating, and certain electrical components. Supplier challenges primarily related to their labor efficiency and availability as they recover their operations in parallel with us.

On the labour front, we continue to secure the people we need, and we added 210 new team members during just the first quarter of this year alone and are actively managing for the requirements through the rest of the year.

Subsequent to quarter end, we received a 2-year interest waiver on our CAD $50 million loan from the Government of Manitoba. This waiver was provided as part of the Government's efforts to support growing businesses in Manitoba within the Green Economy, and allows us to continue to reinvest in our facilities, our products, and our people.

With four months of the year behind us, we are confident in our ability to execute to our plan and we again reaffirm our 2024 expectations for double-digit growth in revenues, deliveries, triple-digit growth in Adjusted EBITDA and positive Free Cash Flow generation in the second half of the year.

Thanks for joining. With that, we'll now open the line for analyst questions. Livia, if you can please provide assistance to our callers.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question coming from the line of Chris Murray with ATB Capital Markets.

Chris Murray^ The first question is just going back to think about where we are with getting the legacy issues out of the way.

So, in the quarter or ending the quarter at least you put in some of the commentary that you think that you're beyond most of the inflation-impacted production. A couple of questions on this. I mean, what was done in Q1, how much of that was kind of naturally just delivered.

But how much of that was also…you did make mention of the fact that you received some pricing adjustments, so how much of this was also impacted by previous orders you

thought you were going to have an issue with that may be not as much of an impact as we go into Q2 and forward?

Paul Soubry^ Well, it's a good question, Chris, because we've had improved results on new price contracts, and we still have those legacies. The pricing recovery or adjustment agreements we're making with customers today had no impact on first quarter results. We'll start to see those through the rest of this year into next year.

If you look at the pure EBITDA and the ratios, if you will, of the first quarter compared to the fourth quarter, we had a significant number of those low-margin contracts go through the system, none of it got the benefit of any price adjustments. Price adjustments are still kind of few and far between at this point on legacy contracts.

As I said, there's only a couple left that have any real impact. The biggest issue from that Dear Colleague letter is around milestone payments.

That's part of the reason we were confident in our liquidity forecast, because we have started to see some real significant response from customers on entertaining milestone payments on legacy contracts.

Chris Murray^ Sorry, that would be -- so you're talking about actually making retroactive payments for where you actually are in the production cycle.

Paul Soubry^ Effectively, yes, bringing payments forward, not retro, but bringing them forward from the historical dynamic where it was: deliver customer acceptance, invoice and then 30 or 45 days to get paid. We are starting to see advanced payments through the build process today as opposed to only when we deliver the vehicles.

Chris Murray^ Okay. That's great. And then maybe just thinking about the aftermarket, just to make sure we're not getting too ahead of ourselves here.

I mean very, very strong quarter, pretty solid margin; is there something unique going on in the aftermarket right now? Is there a special program or something like that we maybe should be aware of?

I think what we're always cautious of is that, from time to time, you get too excited about these margins and you're around the mid-20s margin, and that's not sustainable longer term. So just any thoughts around the composition of what's driving that record performance would be great.

Paul Soubry^ Yes. It's a really insightful question because we worried at the end of the year about whether customers had kind of stockpiled their shelf, specifically public customers, because they didn't trust our suppliers' confidence in their supply chain. That doesn't have to seem to be the case. We had a solid fourth quarter, we had a solid first quarter.

I think some of the stuff that we're doing is what's enhancing our performance, as opposed to the industry issues. We always have campaigns or projects. We've got a big midlife project going on, in Hong Kong that you're aware of that's down the tail end. We've got a mid life program going on in San Francisco. We've got one going on in Chicago.

But those aren't disproportionately large or impacting our results. Most of it comes from really reaping the benefits of what Brian did historically of bringing all the parts businesses together and tightening up our cost base, reducing the number of stocking locations and improving the throughput. That's the first one.

The second issue is we continue to work on our basket of parts. And you know that we've added all those parts together, the NABI, the Orion, the New Flyers, the MCI, Alexander, and so forth. Brian's team over the last couple of years tried to respond to some of the customers' needs of different levels of parts, if you will, good, better, best type mentalities around pick which windshield wipers or something where you have multiple price points.

The other thing that we've been impressive with some of our competitors struggling to exist, some of them pulling out of the U.S. market, some of them completely going away. We've gone back and are working with our customers to aggressively try and support their ongoing parts needs.

Some of them are common parts that we provide, and so understanding the cross-reference numbers and so forth, but some of it is us just really starting to help our customers through periods of transition on other brands. I think I wouldn't project the CAGR that we've seen over the last couple of years going forward in the parts business.

But we've seen tremendous volume growth, good solid margin improvement and massive efficiencies of our own machine.

So, parts performed a little bit better, not in the first quarter. Really pleased to see going on. The response from our customers to us stepping up has been very positive. We continue to expect parts a very important solid contributor part of our business through 2024 and 2025.

Operator^ Our next question coming from the line of Jonathan Mossiagin with CIBC.

Jonathan Mossiagin ^ Can you provide us with an update on what you're seeing on competitors? I believe we have seen Solaris indicate that it is looking to enter the North American transit market.

Paul Soubry^ Sure. Let's look in the rearview mirror first to some extent. We saw Nova Bus' announcement last year to leave the U.S. space and focus on Canada. So, that's actively happening.

Late in the year, we saw El Dorado National, owned by Rev Group, decide to literally just shut their business down. Their last inputs, I think, are happening this quarter with last bus leaving their facility in, let's call it, August or September, so they'll completely leave the market. Proterra went through the bankruptcy, or Chapter 11 reorganization process, came out owned by Phoenix Motor and are now planning to restart the production.

It's a difficult dynamic for them. They've got a lot of unhappy customers. We've got a new owner that's going to have to mop up, if you will, or support existing fleets, but also try and sell stuff going forward.

On the new competitor front, we have seen a number of companies over the years talk about showing up. Van Hool has talked about standing up a facility in Tennessee that never happened.

In fact, Van Hool themselves have just gone through a Chapter 11 reorganization process and are in the process now of being taken over by another Belgian bus company called VDL.

At this point in time, we have no indication that they're showing up in the U.S. We are aware that Solaris has made announcements of wanting to come to the United States.

We know that New York City has given them an order for 5 firm and 85 options that are a test fleet paid for by local by state money, so it doesn't have a Buy America dynamic. When and if they show up in North America is still unclear.

And then the other company that's been talking aggressively about showing up is a company called ebusco, which I believe is domiciled in France. And today, they actually make products with a build partner in China. They too had plans and announced plans to enter the U.S. and have shelved those plans and made an announcement that they're not coming. So hopefully, that gives you a bit of a color on the public transit space.

Jonathan Mossiagin ^ I see. If I can just ask one more question. Do you have any concerns around shifts in demand in the event the administration in the U.S. changes?

Paul Soubry^ Well, when we go back in time and look at funding from the FTA on public transit, it's kind of been bipartisan. The amount of dollars for rail, light rail buses has gotten stronger and stronger and stronger over the last two decades. And we're now at record levels.

What the Biden-Harris administration has done has added a lot more money associated with zero-emission vehicles, electric and hybrid, hydrogen, but also charging infrastructure.

The last time that Mr. Trump was in power, he honored the FAST Act that was in place at that point in time. The Republicans are very vocal about—it's not just an ESG

dynamic—every city is battling congestion. We're seeing more big cities around the world put in congestion taxes in city centers.

So, our view is that we may see some noise around programs going forward or around the funding dynamics and so forth. There is tremendous, tremendous demand to rejuvenate fleets to deal with the real dynamic, but also that congestion dynamic. And so, it could happen at this point in time.

Our industry is monitoring it, talking about it. We ourselves are running around Capitol Hill and talking to both parties at the Senate at the House level. At this point in time, we have no indication that there's going to be any fundamental change at this point in time.

Operator^ Our next question is coming from the line of Daryl Young with Stifel.

Daryl Young^ First question is just around the EV bus development, and I know you guys have a history of this improvement in constant innovation. I'm just wondering if the EV models that you have today are pretty much set?

Or are there new technologies, new configurations or components coming down the pipe that maybe change how your production goes? I guess where I'm coming from is are there risks related to things like the battery drain or whatnot that could come into view because of upgrades or new improvements to EV models? Or are we kind of at a standardized product now?

Paul Soubry^ It's a good question, Darryl, because all we have to do is pick up the paper and see changes in technologies and battery manufacturers and chip manufacturers and so forth. And of course, we're all watching the automotive world: Blockbuster volume projections and then it's slowing down on a retail front.

Historically, before NFI acquired Alexander Dennis in the U.K., Alexander Dennis had partnered with BYD, and were putting ADL bodies on BYD electric chassis that came out of the U.K.

And I'm going to estimate or guesstimate about 2,500 of those vehicles were absolutely first movers in the U.K. Our involvement was largely around completing and delivering the buses.

In the last 1.5 years, we have converted almost all (we have one left) of the platforms where we ourselves are the designer, the manufacturer, the source of the manufacturing integrator on the chassis. And we're not bidding or proposing ADL bodies on BYD chassis. And so, we have a whole suite of new products.

The backlog and the order book on those new products in the U.K. with our own integral chassis have been really good.

It's not like the technology is massively different, but things continue to progress. The amount of kilowatts per hour that go on the bus, the placement of the batteries, the packaging and so forth.

It's something we are current; we are monitoring and advancing as we go forward. In North America, we have a couple of things that have happened.

Originally, we saw diesel and natural gas, and then we had a period of, let's call it, 8 or 10 years, where were all playing with different types of serial or parallel hybrids. Then we saw the introduction of legitimate production of battery electric vehicles. And at first, we thought we'd have very little batteries, but you'd have on route charging throughout the cities. That's proven to be way more difficult to put the charging infrastructure in place that everybody ever imagined.

What's happened over the last couple of years is that we now are relying less on on-route or on-demand charging and way more on a bus that has enough battery to be charged and do its route for the day.

I think our largest battery packs in North America on our transit buses are something like 650 kilowatts, which then has implications for the charging infrastructure and the data on those things.

But our strategy was to continue to evolve the size of the battery packs, but also to be actively involved in the installation sourcing and deployment of the chargers. So, we understand how that ecosystems work. At this point in time, it's not like there's new technology that's going to displace a battery electric bus.

The batteries will get smaller and more efficient and cheaper and all this other stuff over time, and we will continue to evolve. But the envelope of our bus was designed to be able to handle any of those different propulsion systems and has proven to be extremely robust in service.

What has happened in the last couple of years that's kind of new is that we've seen more and more interest in hydrogen electric buses. Think of it very simply that the bus is exactly the same as the battery electric bus, but it has less batteries and the fuel cell's job is to top up the batteries to make it a range extender. And, where 10 years ago, we thought hydrogen would be an alternative to battery,

it's now a supporter, an ancillary support, to the batteries. If you asked us today, we would say, if the demand is 100% for our zero-emission vehicles, we'd say in our forecast, 85% to 80% would be battery and 15% to 20% would be fuel cell.

Fuel cell is not for everyone because you have to have fairly sophisticated and extensive fueling stations or hydrogen generation capacity or availability.

So, we're seeing some customers have a multiproduct strategy where they've got some battery electric, and some fuel cell for some of those long routes that need additional range. A long answer, Daryl, but I think we're safe to say technology will continue to evolve.

Battery and fuel cell will carry the day with advances in some of the technology on inverters and electric motors and so forth. We'll watch to see things like solid-state batteries over the next decade of how that comes into play and so forth.

At this point in time, we and our competitors are all kind of dealing with the same technology. The trick really is around deployment and integration into our vehicles and ensuring that they're reliable.

Daryl Young^ Got it. That's terrific color, Paul. To ask a slightly different way, as well. As you ramp up over the next 12 months and what's in the backlog and coming down the pipe today, would those be pretty standard in proven designs on the EV side that are coming through the pipe? Or are there new model iterations that are layering into the production lines?

Paul Soubry^ Thanks for that question. And just to clarify what I think I was talking to Chris a minute ago. In the U.K., we've effectively completely redone the model lines with our own electric vehicle chassis.

At the same time, taking the opportunity to do some styling and design upgrades on the vehicles. In the North America transit environment, what we're offering will have some tweaks and some evolution minor style issues.

But, for the foreseeable future, we're not talking about new products entering our portfolio, other than some of the work that we're doing today on kind of some of the smaller or medium class vehicles, and we're actually doing some really cool cooperation between ARBOC, Alexander Dennis and New Flyer, what some of that smaller bus opportunity might look like and what the electrification of that fleet might be.

But it's not new stuff. I will say on the motor coach front, you may remember from your previous roles that we historically had two different platforms, a J platform and a D platform.

And it took us about five years because of the order book. We're now completely out of the old D Model. We're into a new D Model, which is built on a common line as the J.

So Winnipeg has been the beneficiary of some very significant improvements in design, layout for the business, but our efficiency associated with that platform is really starting to kick in. Zero-emission adoption in motor coaches at this point is really around the motor approaches that operate inside cities and go home every night given the charging dynamics.

Some of the larger let's call it, employee shuttle type dynamics, Facebook, Apple, Google, Genentech, in the Bay Area are using electric motor coaches, but we're not yet seeing electric motor coaches going cross country.

Operator^ I'm showing no further questions at this time on the phone queue. I will the call back over to Stephen.

Stephen King^ Thanks, Livia. I have one question from Cameron Doerksen that came in through our webcast. Can you provide an update on what you are seeing for demand in the competitive environment in the U.K. market. Second part of the question, are we seeing pricing improvements on new orders at Alexander Dennis similar to what we're achieving in North America?

Paul Soubry^ A good question, Cameron. Let's separate the two then. Demand in the U.K., if we go back in time, one of our investment theses in Alexander Dennis was that the U.K. market has started to drop in kind of post Olympics timeframe. And we saw, I think, the trough of the market ultimately be 2023, but start to degrade in 2017, 2018, 2019 and so forth.

And we started to see an aged fleet in the U.K. as they recovered from COVID first and then global supply chain dynamics and economic realities. That market and the demand overall fleet is now starting to recover to get closer back to what it was pre-COVID. It's not there.

But the overall demand for buses in the U.K. is recovering. We have an aged fleet that is costing these private operators that are making it difficult for them to be profitable.

With respect to the pricing, the fact that we are now selling an integrated ADL design, has enhanced our offering. Therefore, demand is up, and our pricing and margin is also better. There's the political dynamic in the U.K. that's different, for example, than in the United States.

In the United States, or Canada, there are public transit agencies that have various types of government funding, local funding, federal funding, you have special programs like the FTA Low-No.

In the U.K. environment, these are private operators that bid on routes, Stagecoach, or First Bus, for example, and make money off the farebox, and they have had a dramatically difficult time over the last four years.

What's happened to adopting zero-emission technology, you have that what I refer to in my notes today of the ZEBRA scheme and now the ZEBRA2 scheme or the ScotZeb, the Scottish zero-emission bus scheme, that have been helpful to actually generate private operator purchases of zero-emission vehicles, which has also helped given our product offering. The difference in the U.K. is you have kind of two major providers. You have us at a company called Wrightbus.

But you also have dynamic of competing as international operators and some Chinese guys, for example, Yutong sells buses through an importer in the U.K.

So it's a very different market. It's recovering; pricing is better. Zero-emission adoption is faster than North America, but it also has an international competitive dynamic. So hopefully, Stephen, that gets Cameron what he was looking for.

Stephen King^ Yes. I hope so. I think that was a good response. Okay. We're going to wrap it up, as there are no further questions here on the portal or on the phone line. Just a reminder for everyone, we have our AGM later this morning at 11:00 a.m. Eastern.

Information for joining that is on our website. Also, our annual ESG report for 2023 will be released later in May. You'll see an announcement for that soon in the near term, and it will be available on our website. As always, if anybody has any questions, please reach out any time. All of our contact information is on our website and on our press release. Thanks. And have a great day.

Operator^ That does conclude our conference for today. Thank you for your participation. And you may now disconnect.