NFI Group (2022 Q3 Results)

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Corporate Speakers:

- Stephen King; NFI Group; Vice President, Strategy and Investor Relations
- Paul Soubry; NFI Group; President and Chief Executive Officer
- Pipasu Soni; NFI Group; Chief Financial Officer

Participants:

- Kevin Chiang; CIBC; Analyst
- Chris Murray; ATB Financial; Analyst
- Daryl Young; TD Securities; Analyst
- Mark Neville; Scotiabank; Analyst
- Alex Hutton; National Bank; Analyst

PRESENTATION

Operator^ Good day and thank you for standing by. Welcome to NFI Group's Third Quarter 2022 Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Stephen King, Vice President of Strategy and Investor Relations. Please go ahead, sir.

Stephen King^ Thank you, Norma. Good morning, everyone and thank you for joining us. Joining me on today’s call are Paul Soubry, President and Chief Executive Officer, and Pipasu Soni, Chief Financial Officer.

Today we will walk through our Q3 2022 quarterly results, provide an update on discussions with our banking syndicate and government partners with respect to liquidity and covenant relief, and then provide comments on the broader macro environment and our outlook. Following that, we will open the call for analyst questions.

If you’ve not been able to access the dial in option of this call, please post your question in the webcast chat and we will read them live from there. 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 Investors section on the NFI Group website. We will be moving the slides via the webcast link as we present this morning, and we will also call out the slide number as we go through the deck for participants on the phone and on the webcast.

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

Please also note that certain financial measures used on today's call do not have standardized meanings 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 reporting currency and all amounts referred to are in U.S dollars unless otherwise noted.

On Slide 3, we've included key terms and definitions referred to in this presentation. Of note, zero-emission buses or ZEBs consists of battery-electric, hydrogen fuel cell-electric, and trolley electric buses and coaches.

Equivalent units or EUs is a term that we use for both production slots and delivery statistics. The majority of our vehicles represent one equivalent unit, while an articulated 60-foot transit bus takes two production slots and is therefore equal to two equivalent units.

On Slide 4, for those of you new to the NFI story, we are a leading independent global provider of sustainable bus and motor coach solutions. We are leaders in our core markets, which includes heavy-duty transit, motor coach, and aftermarket in North America; heavy-duty transit and aftermarket in the United Kingdom; and we are the world leader in double deck transit buses. We operate under our sustainability pledge to deliver a better product, a better workplace, a better world. Further details on our environmental social governance programs can be found in our website in our Annual ESG report.

Slide 5 shows the breadth of the NFI solutions, which includes the vehicles itself, charging infrastructure, telematics, aftermarket parts and service, training and workforce development and, finally, financing solutions where required. We provide highly customized engineered-to-order buses and a suite of bespoke mobility solutions to meet the green needs of our customers. I'll now pass it over to Paul.

Paul Soubry^ Thanks, Stephen, and good morning, everyone. If my voice sounds a little rough this morning, I apologize and will try to speak slowly and clearly. As if my luck couldn’t get any worse, despite four vaccinations I tested positive for COVID this past week, for the second time. I’ve been working remote.

Now on Slide 6, we will summarize the quarter. As we explained during our October 24 [2022] update, supply chain disruption and supplier underperformance has been a challenge for our business since mid-2021. But recent supplier delivery misses and decommitments on critical parts have compounded an already difficult situation.

Let me be clear from the onset. Overall, NFI doesn't have a demand problem. We are short critical parts to efficiently build and deliver contracted buses. The supply disruption has led to lower-than-planned line entries, completions and deliveries in the quarter, and forced us to change our plans once again for increasing production rates in the fourth quarter to fulfill contracted orders.

It also resulted in further growth of our offline work-in-process inventory, ending the third quarter with over 400 buses that have been built but are missing certain critical components. We're now focused on delivering as many of these offline vehicles as we can before the year-end.

The challenging macro supply environment is not unique to NFI as primarily electrical subcomponents, which include microprocessors, electrical connectors, wiring harnesses and other items remain constrained globally, which impacts us and all vehicle manufacturers.

We know for a fact that our peers in the bus manufacturing space are also facing these supply disruptions and also experiencing a buildup of incomplete work-in-process and have also had low line entry weeks.

While we anticipate these challenges to continue in 2023, there are signs of improvement which we'll discuss later on in this call. NFI continues to lead the evolution to zero-emission mobility in buses and coaches. In the third quarter of 2022, 13% of our overall deliveries were zero-emission buses, and they make up 21% of our backlog and NFI electric buses and coaches have now completed over 85 million electric miles in service.

In addition, our Infrastructure Solutions team has now installed over 330 EV chargers, a base of over 55 megawatts and we expect to install at least 120 more chargers in 2023. In our Aftermarket segment, revenue was flat year-over-year. However, Adjusted EBITDA was down slightly due to unplanned freight surcharges, and some higher input parts costs.

We were able to pass on the majority of these increased costs through our transactional pricing programs. But we were not able to do so on certain fixed price contracts and programs. While 2022 has been challenging, our longer-term outlook remains very strong driven by significant increases in our demand metrics and our win rates.

Our North American active public bid universe is up 14% year-over-year at 10,170 EUs.We submitted the highest number of bids on record during the third quarter of 2022, at more than 7,000 EUs in that quarter alone. Success on these bids will help us drive additional growth in our future backlog and our future contract wins that will extend over multiple years.

Unprecedented government funding continues to drive this activity, and we expect that this elevated demand for our products will continue into 2023 and beyond. It's important to note that our ZEBs are critical component of government funding programs as part of their net-zero objectives, and now represents 48% of our total public bid universe.

NFI's total backlog was down slightly from Q2 2022, driven by the timing of new awards, and higher option expires with a number of older diesel options expiring in the quarter as agencies ramped up their plans to acquire zero-emissions.

Reflecting the individual timing of each transit agencies unique approval processes and Board meetings, we ended the third quarter [of 2022] with an additional 1,360 EUs of bid award pending, meaning that NFI has been selected as the preferred provider, but final contract documentation has not been finalized. Once the paperwork is received and the contract signed, these units will be recognized as awards and added to our pending backlog.

We also continue to advance our NFI Forward and NFI Forward 2.0 initiatives with a total of $18 million in combined Adjusted EBITDA and Free Cash Flow savings realized within the quarter. In 2022 Q3, we closed the legacy parts distribution facility in Delaware, Ohio and integrated it into our existing NFI parts distribution footprint. We are also on track to close MCI's public coach completion facility in Pembina, North Dakota (as announced earlier this year) in the first half of 2023.

As we noted in our update on October 24 [2022] and our third quarter [2022] results, released last evening, based on our fourth quarter [2022] financial expectations, we anticipate we will not be able to comply with certain credit facility covenants to become applicable at the end of the fourth quarter [of 2022].

We, however, are in detailed discussions with our banking syndicate, with Export Development Canada or EDC, a member of our current syndicate, and the Government of Manitoba, to evaluate financing structures to obtain relief required as we launch into the next few years of recovery with increased contractual backlog and strong bidding activity. Based on the potential solutions being discussed with the government and banking partners, I anticipate NFI will be able to obtain the covenant relief required.

On Slide 7, we present our third quarter 2022 deliveries and our total backlog, which now has orders out to 2027. At the bottom of the slide, you can see that the quarter deliveries were up slightly within the heavy duty transit space as the third quarter of 2021 was also (inaudible) from supply chain disruption.

All of our product lines deliveries are down significantly on a year-to-date basis, reflecting the ongoing challenge to supply environment. I want to stress that it's not all parts we are having challenges receiving, but certain critical electronic electric system parts related continue to be the most problematic.

On Slide 8, we've provided an update on two macro impacts to our business: inflation and foreign exchange or FX. For inflation, we have both firm and option orders within our total backlog. Generally, our firm orders are manufactured and delivered within 12 to 18 months of the award being received. When we make our original bid, we will obtain

specific pricing for more than 50% of the vehicle's components from our suppliers, as they're often uniquely specified by the customer.

For many other non-specified components, we use internal sources including Carfair for fiberglass fabrication or KMG for metal fabrication, electrical kit assembly, and plastic thermoforming. We incorporated an inflation adjustment into all of our contacts to reflect the time between award in manufacturing. As inflation escalated rapidly in 2022, we experienced significant supplier surcharges, effectively pushing us to pay for it or not get the parts, and actual costs exceeded estimates on certain firm contracts from suppliers, the majority of which were bid prior to 2022.

The ability to resource or reengineer other parts into the build is very limited. For the impacted contracts, we launched a campaign with customers requesting price increases, surcharge recovery, and contract pre-payments. We have seen success on these new initiatives with over $42 million in prepayments received as of October 2, 2022, and certain pricing adjustments have also been received by customers.

We continued advanced discussions on similar programs and expect additional benefit in Q4 2022 and into 2023. But please keep in mind that each customer's funding mechanisms are different as to the actual contract as is the actual contract language, and their local and political and budget dynamics take considerable engagement for many customers and time to complete.

Some customers have even responded with offering future bus volume and option divergence. But unfortunately, this does not help our 2022 results. In 2022, we updated our bidding and pricing strategies to reflect heightened input cost and higher inflation adjustments rose vehicle and aftermarket part contracts. And, because of these actions, we anticipate the inflation will primarily impact 2022 margins, with some carryover into 2023.

Inflation-related margin pressure is expected to ease in the second half of 2023 as the majority of our legacy contracts impacted by the onset of rapid and hyperinflation will have been completed.

As a reminder, inflation on option orders is a different situation. For the majority of our option conversions when a customer execute on an option in the future, there's a repricing opportunity that factors in a producer price index or a government PPI clause, or, in some cases, other types of inflation instrument. Contracts that have a PPI adjustment clause add a price increase at the time the option is actually executed, which protects margins from future inflationary pressures.

NFI's total backlog is currently split about 49% firm orders and 51% options. The majority of today's the majority of today's firm contracts reflect our updated inflation affected costing and therefore our pricing.

With respect to currency movements our foreign exchange or FX energy generally, NFI prices contracts in local currencies, for example, Canadian contracts are priced in Canadian dollars, U.K contracts in pounds sterling, and so forth, while parts and components come from different jurisdictions with different currencies. We have a macro hedging strategy in place to identify group level to address potential FX exposures.

But, given the rapid rise in the U.S dollar in 2022, we expect there to be some negative impact from FX on certain contracts bid last year or earlier this year that are built late 2022 or in 2023. This is primarily a function of a higher-than-normal portion of New Flyer contracts with Canadian customers planned for 2023. Offsetting this negative impact will be benefit of lower wage costs for our Canadian-based employees and lower interest costs on our Canadian convertible debentures.

Now turning to Slide 9. In the second quarter of this year, we provided a summary of our workflow workaround plan to address a specific microprocessor shortage impacting the supply of critical control modules to New Flyer and MCI in 2022. This workaround program has been a success as we sourced microchips, three levels down in our supply chain, and completed buses on the production lines using flex units. We've now delivered nearly all of the effective buses that were missing this specific module, showing the success and creativity of our team.

Unfortunately, we're experiencing similar issues with other critical parts such as wiring harnesses, electrical components, and destination signs today. As explained in –our October 24 [2022] press release and subsequent investor call, we launched another action plan this quarter to address key missing components, including the temporary halt of new line entries at all New Flyer plants for a number of week to allow our suppliers additional time to deliver backordered parts to our facilities.

And, like our module workaround plan that we announced earlier this year. Our people are working diligently and creatively using a build and hold approach to accommodate missing parts. We have “retro teams” created in every one of our plans to finish buses with missing parts as they arrive. Given the supply chain for certain critical parts is not yet reliable, we will continue to run operations at lower new line entry rates to minimize the buildup of other station work and therefore excess offline inventory.

A reminder: for every hour we miss installing parts of the production line in the plant work cell as the bus is being built, it requires three to five person hours to address offline and other station work, which is both very costly and extremely disruptive to production.

Slide 10 is an overall supply chain health chart. Despite the focus and tireless efforts of our supply team, the unplanned disruptions to our production lines have critical components that simply continued longer than we anticipated. Once again, we saw this disruption accelerate quickly, early in the fourth quarter of 2022, with some suppliers providing less than a week's notice that they could no longer meet committed delivery schedules to our plant.

The overall parts availability has been improving. If you walk into our plant, you'd see 98% or 99% of all necessary parts on hand and in station. But certain critical parts remain challenged. And it becomes even worse when they have significant cascading impacts. For example, a wiring harness has massive cascading impacts downstream in production.

We do expect these parts delays to continue into the first half of 2023. And as a result, we've delayed once again the increase in production rates in 2022 and now plan to begin increasing line rates in the first half of 2023. Given the wide variation in bus propulsion types and unique customer specs, this is not a simple process. And we are taking a measured approach to add capacity conservatively, allowing for proper training of skills and to ensure supply chain health.

We are targeting a return to pre-pandemic run rates by late 2023 and into early 2024. I remind you again: this is not demand issue, it's primarily a supply dynamic. I'll now turn the call back over to Pipasu to summarize the financial results for the quarter.

Pipasu Soni^ Thanks, Paul. Turning to Slide 11, we highlight some of our key financial metrics. As previously mentioned, it has been a challenging quarter based on the unpredictable and unreliable nature of certain supply chain elements. We continue to have nearly 99% of our parts on hand in the appropriate build or production station. But the unique 1% causes havoc on our build efficiency, bus completions, and financial performance.

We are an engineered-to-order manufacturer of highly customized buses. Therefore, any challenges in supplier performance to commitments results in production inefficiencies, lower than planned deliveries, and higher material cost. We saw this in the third quarter [of 2022], and, when combined with a lack of government wage subsidy grants in 2022, compared to the $14 million we received in Q3 2021, led to year-over-year declines.

The majority of our financial pain is in our North America bus and coach business where most of our contracts are with government agencies. As Paul mentioned, the dynamics of the contractual process does not allow us to easily pass on supplier or freight surcharges and inflation to government customers. Instead, we enter into negotiations seeking price adjustments and or advanced payments to help offset inflationary more timing impacts.

We have actively pursued these programs and, while we have seen some success, certain contracts remain in negotiation. In summary, for Q3 2022, sales were up 5% year-over-year, but Adjusted EBITDA decreased by $47 million. With positive Adjusted EBITDA in the aftermarket segment offset by negative Adjusted EBITDA in the manufacturing segment.

Negative EPS and adjusted EPS of $0.56 cents per share and $0.63 cents per share, respectively. Our third quarter ending liquidity was strong at $471 million inclusive of our $250 million minimum liquidity requirements.

This is an improvement of over $150 million from last year, but down over $150 million sequentially, primarily due to an increase in long-term debt, which was used to finance growth in inventory and other working capital balances related to supply chain disruptions. As our vehicles are delivered, they move from inventory to accounts receivable, and it takes some time to convert to cash as each customer has unique payment terms.

We do expect to see an improvement in liquidity in the fourth quarter, reaching over $500 million driven by the lowering of total whip combined with the benefit of customer prepayments. Due to the timing of cash conversion, some of the benefits from the completion and deliveries of vehicles won't be seen until the first quarter of 2023.

On Slide 12, we reconciled net earnings to adjusted net earnings or adjusted net loss. In the quarter, net loss was impacted by the same items that impacted Adjusted EBITDA, offsetting some of these negatives were fair market value gains from our interest rate swaps.

We currently have two swaps in place, one for $540 million at 2.27% and another for $200 million at 0.4 %. This greatly limits our exposure to floating interest rate increases. As rates have been on the rise, we saw strong gains in the period which we normalize. The chart on the bottom of the slide walks through the normalizations made year-to-date in 2022.

Turning to Slide 13, we summarize our revised 2022 guidance that was updated on October 24, 2022. Based on year-to-date results, our guidance suggests that fourth quarter 2022 will generate Adjusted EBITDA between negative $6 million and positive $14 million dependent on supply performance with completion and ultimate bus deliveries to our customers. I'll now turn the call back over to Paul to provide insight on our outlook.

Paul Soubry^ Thanks, Pipasu. Now on Slide 14. As we noted, our public bid universe continues to grow. We have over 10,107 equivalent units in active bids, which will drive new orders and awards in the coming months. Longer term we see over 20,000 years of potential opportunities from our 5-year bid universe. In total, our public bid universe is at record levels over 30,000 equivalent units, with 48% of them being zero-emission buses.

And a reminder that zero-emission buses have –higher revenue and higher dollar margins per unit. I want to point out that NFI has now received more than 1,000 vehicles awards from purchasing schedules since the start of 2018, which is showing their growing use by U.S public transit agencies as a procurement alternative to the traditional one-off public RFP process in North America. These purchasing schedules are not recorded in backlog as they do not have defined quantities allocated to NFI or any other OEM.

Once a customer agrees to purchase a bus using one of these agreements, the award is a recorded immediately as firm orders in our backlog. On another positive note, we continue to see positive signs of bus ridership recovery with APTA reporting that September 2022 public transit ridership in the United States has now surpassed 70% of

pre-pandemic levels, as general travel resumes, and as business offices reopen. This will assist our customers' farebox revenues, lower their city congestion and lower emissions in their local communities.

While ridership is very important, the primary driver of public trans procurements in Canada and the U.S is federal, state or provincial, and municipal funding, that assist operators execute on their fleet replacement plans, which has now been turbocharged by the environmental emission reduction targets. Incredible funding.

On the topic of funding on Slide 15, we recap our performance on the 2022 U.S FTA Low-or-No Emission and Buses and Bus Facilities grant programs. I do want to point out that there was an error in our previous announcement on these 2022 FTA grant programs, and full details of the reconciliation are provided with our Q3 2022 MD&A and our press release.

New Flyer was named directly as a preferred partner on nearly $200 million of grants with 15 agencies. This is a significant improvement from our 2021 performance, where we were the named partner on $40 million of grants with nine agencies.

While New Flyer was the named partner with new awards, will not be added to our backlog until contract documentation is completed and a formal purchase order is received. New Flyer success with Low-No and Buses and Bus Facilities grants provides future backlog growth opportunities.

In addition to the named awards, there's another $800 million in the FTA Low-No grant program that were provided to public transit agencies that have not yet formally named or preferred zero-emission partner, which will generate future zero-emission bidding activities for NFI.

On Slide 16, we highlight a few global wins from our third quarter, including a 50-unit double deck award for Alexander Dennis from the transport for Greater Manchester in the United Kingdom, an order for 40 ARBOC low floor cutaways from Las Vegas, and 27 of our 60-foot articulated electric buses for Madison, Wisconsin. Even better news, subsequent to the quarter we also announced that Alexander Dennis had received the largest individual bus order in the United Kingdom since 2019 for 200 low-emission double deck buses.

On Slide 17, we highlight the growth in the average sales price in our North American backlog. The chart shows heavy-duty transit bus and motor coach average prices have grown significantly, reflecting the impact of updated pricing, additional ZEB orders and highly customized options on buses. These average prices will flow through to our future revenues and margins.

On Slide 18, our book-to-bill has continued to grow with the third quarter [2022] LTM at 130%, positioning us well for the future. We did see a decline in the LTM option conversion, which was expected by us as there were a number of options for certain ICE

propulsion buses that some customer decided not to convert, as they now plan to update their fleet with more zero-emission buses.

For clarity, with FTA funded programs, customers may refine or tweak the specification with bus builders after contract award. But they are not allowed to make cardinal changes to propulsion type.

On Slide 19, we have not moved off our long-term targets and are confident that NFI will recover from the supply challenges and continues to lead the evolution to zero-emission buses. For 2025, we continue to target at least $400 million of Adjusted EBITDA from revenues between $3.9 billion and $4.1 billion. These expectations do not require massive change to our business.

As we delivered Adjusted EBITDA of $332 million in 2019, on a pro forma basis accounting for the acquisition of Alexander Dennis, and prior to any savings from the NFI Forward initiatives.

These targets are based on higher anticipated sales and margins from zero-emission buses, recovery and production rates has moved beyond current supply chain challenges, increased penetration and expansion into international markets, and volume leverage as we produce a higher number of vehicles on a lower cost base resulting from NFI Forward and NFI Forward 2.0 initiatives.

Finally, on Slide 20, I'd like to recap our investment thesis. While the past few years, specifically since March 2020 when the pandemic began, we've been extremely challenged, and have been required us to revise our guidance and recovery expectations many times, we remain focused on the long-term and delivery for our stakeholders. We're very focused on retaining the core talent and skills in our business.

We've managed through an ongoing global pandemic, sudden and significant inflation, unimaginable supply unreliability from many suppliers who performed for NFI to a gold standard for over 20 years and, most recently, rapid and material movement in currencies. We continue navigating through supply chain challenges and the associated inefficiency created, but we will move past these initial and expect to start recovery in 2023.

As we explore the possible options with our credit syndicate, with EDC and our government partners, for which we have had several meetings, we anticipate obtaining the necessary covenant relief. As I've said before, 2023 will be a period of recovery and transition for NFI. I fully understand that you've heard that many times from me, but we don't have an order book or a market demand problem.

We won't increase our production rates until supply chain health warrants. We are optimistic based on recovered pricing, renewed supplier engagements and lead time agreements, adjusted inventory on hand strategies at both NFI and at our suppliers, declines in commodity pricing, and lower shipping backlogs.

We will also benefit from a strong backlog position that has given us excellent visibility into our planned 2023 deliveries. We've essentially sold out all of our 2023 production slots in North American public transit, and are further ahead of where we'd normally at this time for our other markets.

There will continue to be some supply chain impacts, no doubt, especially in the first half of next year. But certain lower contract margins will carry into –the New Year, placing pressure on manufacturing margins. Overall, there will be improvement in 2023. But we anticipate these results will still be significantly below our pre-pandemic levels.

NFI remains the market leader in North American buses and coach, with the market leader in U.K transit, with the market leader in Hong Kong double decks and a global leader in bus and coach to parts distribution. We've been growing our business internationally and continue to develop market leading products that will support our customers transition to zero-emission transportation. In our market it's not a matter of if; it's a matter of when.

I want to sincerely thank our people, our customers, our banking partners, and our shareholders for their support as we continue to work through these headwinds. No doubt we are not alone. It's not been easy and require difficult decisions that impacted our team members and their families, plus our shareholders and our other partners. I'm confident we'll move beyond these issues and get back on track delivering for our stakeholders.

As I've always said, we're proud of our history and excited about our future. Although if I'm totally honest, I'd like to forget the past few years. We do and will continue to lead this industry. And we will see recovery in 2023 onto 2024 that will drive further growth as we get back onto our path of our 2025 targets. With that, I'll now turn the call back to Stephen King to provide directions for the Q&A portion of this call.

Stephen King^ Thanks, Paul. We will now open the line for analyst questions. (Operator Instructions).

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from Kevin Chiang with CIBC.

Kevin Chiang^ Good morning. Thanks for taking my question. Paul, hopefully you start feeling better soon. Maybe just on the comments you made around the liquidity and covenant relief. It sounds like you're working with the banking syndicate.

But you also mentioned working with EDC, one of your banking partners, as well as the Government of Manitoba to maybe find an additional solution to improve liquidity. Just wondering if you could elaborate on maybe what that is? It sounds like you could be doing something with the backlog there. And does that need to happen first before the

banking syndicate looks at providing covenant relief, or can this happen concurrently? Are they two separate negotiations?

Paul Soubry^ No. Thanks, Kevin. Great question. And so, just building on what we talked about in our script. And back to that chart on supply chain dynamics, where we reset our covenants and put in the revised credit agreement in the end of July, we had started to see supply chain improvement and health and therefore continued to expect two things: one, we'd burn off WIP that we built that was offline; and two, we would be able to ramp up our production capacity. Again, we have contracted orders for this stuff. It's not like we're building to put stuff on a shelf.

As we got through September and into October, it became crystal clear that those two things were not going to happen. We continue to have some pretty serious parts supply issues that are cascading, and I used example in the script around the wiring harness. If you don't put the wiring harnesses in the bus in stages 2, 3, 4 or 5 of the build process, the cascading impact of all the other stuff you have connected….very challenging.

So, putting more units in the production facility only to create offline WIP that requires more offline people was kind of crazy. As a result, we pulled the fire alarm early with the syndicate to say we don't believe we're going to default until the end of the quarter. But, quite honestly, there's no way we're going to be able to catch up, and therefore heads up on some of these covenants we've put in place.

So, the conversation is absolutely happening in parallel. First and foremost, we're going back to our credit syndicate, and have had discussions about those realities and those dynamics. We've provided them now with updated forecasts for the quarter, as well as for the 5-year plan that's to continue to be work in process.

In parallel, we went to the local province to see if there's any creative programs that they have in place that could help with a different kind of debt or liquidity to help us manage on that, obviously, all on commercial terms. And then we went to the federal government to say, look, we're not alone, but our business, our industry has been inordinately impacted with no ability to cure in the short-term.

And so working with many of the federal government departments, and specifically with EDC, who's in the current member of our syndicate, we're exploring all possible options of both liquidity, but also covenant flexibility because it's impossible to say how fast things can snap back. We firmly believe based on our order book that we can recover a great degree in 2023. But to get back to pre-pandemic levels, as I said, it's going to get to 2024 and beyond.

We don't need runway for a quarter; we need some flexibility for probably a year to make sure that we can navigate as supply chain gets healthy. But the response has been fantastic.

The acknowledgement of the critical nature of our business and what it does to specifically government targets around zero-emission and environmental impact, the response has been fantastic. All that stuff is happening in parallel. I wish I could have had more detail to provide you on today's call. But we have all hands on deck and all support that we could ever ask for to try and come up with some solutions. Stay close, and stay tuned to what those look like.

Kevin Chiang^ No, I appreciate that. I appreciate the sensitivity of the conversations today. When I looked at Slide 10, that highlights your supply chain challenges. When you look at that spike back up from 24 high-risk suppliers to 39, I'd be interested to know, are those incremental 15 high-risk suppliers?

Are they new suppliers? Or they suppliers that used to be up in -- when you had 50 or these kinds of previously high-risk suppliers that eventually you saw moderation now, they're kind of back to being high-risk or just kind of how that's trending? And then, I guess, are you seeing when you see these decommits, are you seeing like even your secondary supplier is decommitted is that creating a problem? I know you've tried to find alternate suppliers here, but are they also decommitting and which is now exacerbating this risk management process?

Paul Soubry^ For the most part, it's the same cast of characters and they started off in…everybody can go all the way back to 2020, early 2021. We always have a handful of suppliers with challenges. And some of it is their ability to get manpower, some of it is their ability to source individual pieces or components or microprocesses and so forth.

As we move through 2021, both the ones that are in high-risk, high-impact increased, as well as the medium class guys. So, as you can see, at one-time, we literally had 110, Q1 2022, of our total 700 top suppliers that we had our eyes on, 50 of which could literally shut our product lines down. And then what happened is, as we moved into Q2 and Q3 of this year, we started to see the high-risk guys move into the medium category. Their delivery performance was getting better, their lead time management was getting better and so forth.

But then all of a sudden, this isn't new suppliers joining that party. These are those same suppliers that have planned a certain level of inputs, whether it's electrical connectors on a wiring harness, the wiring themselves microprocessors that go into control modules. And so it's not like it's a new group of stuff.

And the ability to alternate source that is very difficult, which goes back to what I said before, the reason we were successful and recovery on the VMM module issue is we actually went down two or three or four levels in the supply chain and helped our supplier find a number of micro processors, that could then get us those processors or those parts.

So, look, I think it goes to the broader dynamic around global supply of some of these key components. And because of the bespoke nature, the customized nature, our supplier’s ability to alternate supply is also compromised. Historically, we've never

worked below the first or second level in our supply chain. And now we're actively doing this.

And back to the VMM module, for example, what David White and his team has done now is we're pushing our supplier to have 2 years of chips on hand or their inputs to give us the modules. And so we're trying to push responsibly down the supply chain, that it's not only us that need to carry buffer inventory, we can, but our suppliers to do the same thing.

It sounds rather perverse, but we're kind of excited about the possibility of some global recessionary dynamics where some of the global demand or maybe some of these micro processors, electrical connectors gets offset a little bit that will free up some capacity, or relieve some of the concerns that we have.

Kevin Chiang^ That makes sense. Yes. Go on, Steve.

Stephen King^ Just to jump in real quick, this is definitely an industry issue that we're seeing on this kind of decommitment and supplier challenges across the industry.

We've heard from our suppliers, from our customers that our competitors as well have had to do temporary halt to new vehicle production that seen a buildup of work in process inventory. So it's definitely this, kind of, I guess, surge in kind of some supplier challenges. It's definitely something that's impacting the entire bus production industry. So not only it's just NFI, we're also seeing it, like I said, at all of our biggest competitors.

Kevin Chiang^ No. That's great additional color there. Maybe just last one for me. When you look at your backlog, call about half of it option, what percentage of those options would be pure diesel? Ones that you would think are at risk of essentially being not exercised as those transit agencies look to transition to a low- or no-emission vehicle type?

Paul Soubry^ Stephen, you probably have that data.

Stephen King^ Yes, I think on the options that are still Z, or sorry, ICE traditional, there's still quite a few in there, but most of them, we did see quite a few get expired, didn't get converted to third quarter. And so then we did see a lot of those flow through this quarter.

We'll still see, I think before the end of this year, and as we head into 2023. As we get beyond that, more of the future options that we're starting to build up are getting more and more ZEB all the time. There continue to be some CNG hybrids, some diesel buses in that option backlog.

Now, not all customers will choose to not convert those options. So certain customers will convert their hybrids or some diesel vehicles still, but on the transition to zero-emission, we definitely will see more customers focused on executing new orders to issue

new battery electric fuel cell-electric orders that will likely replace some of those options that don't get executed.

Kevin Chiang^ Right.

Stephen King^ So you'll see that we have orders going out now to 2027 and quite a few of those are hybrids or electric orders. And as Paul mentioned, 48% of our public backlog is now zero-emission. So I think what we may see is, conversion probably stays in that 60% kind of rate, maybe a little bit lower certain quarters and maybe a little bit lower at certain times on an LTM basis. But we will see, I think the options that don't get converted will be replaced by future options that are probably more zero-emission.

Kevin Chiang^ Right. Just kind of a replacement cycle there. That's helpful. I'll leave it there. Thank you very much, and Paul feel better.

Operator^ (Operator Instructions) Our next question comes from Chris Murray with ATB Financial.

Chris Murray^ Yes. Thanks, folks. Good morning.

Paul Soubry^ Hi, Chris.

Chris Murray^ Just maybe going back to maybe some of the discussions with maybe the problems, EDC and the credit facility or the credit syndicate. I guess starting here you've talked a little bit about the fact that you have a covenant calculation issue, not really a liquidity issue. So, I'm trying to understand a couple of things.

One, what exact liquidity would you be looking for? And would that be to reduce the liquidity draw off the main credit facility? Is that how we should be thinking about this. And then, second, you did put some language in there around the dividend and probably that maybe having to go away in the quarter. But just if you want to talk about dividend or any other incentives, you may have to give to get distribute that warrants or other equity, that'd be helpful as well.

Paul Soubry^ Thanks, Chris. All great questions. Limited a little bit in the ability to provide you much more color, a couple of things. The fourth quarter, we're expecting to actually improve our liquidity a little bit as we complete and deliver some of this offline WIP and parts come in, there's a bit of a challenge there because every customer has different payment terms. If we deliver this week, depending on when it's accepted.

We don't expect to suck cash in the fourth quarter, which goes back to the issue really isn't in the short-term of liquidity dynamic. As we ramp our business back up over the next 12, 18 months, it is most likely we're going to need some more liquidity room to be able to give us higher priced buses and manage the increase we've associated with that.

So until the thing is done and solved, we're exploring all possible options, whether it's the way the current syndicate is made up. As you know, today, we have a $1.25 billion capacity with $250 million minimum liquidity.

And we're looking at things aside from that, such as other examples of debt from whether it's a government or type organization, or subordinated debt type examples. We're working through all that stuff to try and come up with a solution that makes sense for us as a business to operate with flexibility for our banking syndicate to make sure they continue to support us going through this.

And we get it, they've been ridiculously supportive over the last 2.5 years as we've managed our way through COVID and supply chain, we get there, they're doing everything they can to manage their risk profile. And we've had super support from the government people we've talked to, and whether it's provincially or federally about the importance of our business, not only as an employer of people across North America and the world, but also quite frankly, as one of the key enablers of the zero-emission agenda.

So all those things are in place. We don’t yet know the shape of the debt, the ultimate liquidity number, the whole covenant package that makes sense for us to manage through this period of uncertainty. I don't want to be flippant about it, but I continue to go back to RFPs and bid universes at macro level, bid universe or what people say they're going to buy is that an all-time highs. Our backlog is very healthy. We have a whole bunch of stuff sitting in the batter's box just waiting for paperwork.

So it's not really a demand issue. It's around making sure we have the flexibility, and our credit partners have the security and the risk assessment, the risk, appetite to help us manage through that. Not to be silly about it or to be simple about it, it's very complicated, but we are committed, and we are confident we're going to get that next level of flexibility to help us manage through.

Chris Murray^ Okay. And any commentary around your thoughts around the dividend or?

Paul Soubry^ Well dividend, we will play into that same conversation, right? There are calculations inside our credit agreement that have dividend tests and so forth. That's one issue.

Second issue is depending on whatever solution looks like whether it's a government support program at commercial rates and so forth, there may be restrictions associated with this. The syndicate is clearly interested in where any available cash goes. So, there's no definitive decision yet on how that works or where that falls out. You know that we've historically felt dividends was an important part of our business, amd we want to retain that going forward at the right level.

Given the profile of our customers of our industry, the fact that it's not a massive growth business or growth industry, it's really replacement one. And actually looking at some

cases, more like utilities than it does any other kind of other business. So, it falls into the whole discussion about credit syndicate, about liquidity, about covenants, and so forth. And that could be part of the solution depending on where the whole thing ends up.

Chris Murray^ Okay, helpful. My next question, looking at Slide 16 and 17 for a second, I guess the first thing kind of interesting to your commentary, so first of all, pretty substantial step up in average selling price in the backlog.

But you also make the comment that the dollars per EU contribution, I guess we would have thought that it is the EBITDA per EU type of number. It's also going higher. Historically, you've been kind of cautious about the way you've had to think about EBITDA is sort of a fixed number. Is there something changing in the dynamic here? Or is it just more inflation catch up and normalizing of margins is how we should be thinking about this? Or just any color around that would be somewhat helpful.

Paul Soubry^ Yes, that's a really good question as well, Chris, because there is no question if you compare our margins of 2019 or 2022 today, right, the massive impact has been parts cost that we can't pass on, and quite frankly, labor and efficiency. Just a silly example, not silly example, a point in time example, every percent of labor efficiency in our factory is worth about $2 million of EBITDA, just on the New Flyer side of our business.

And so the inability to build the buses with efficiency has not only the cost of increased material, but also tremendous labor efficiency, which is actually killing our margins. So there's no question there's a normalization of margins. The other thing, quite frankly, and we've been saying this since we saw zero-emissions come into our portfolio, that a zero-emission bus has a better margin, whether its battery-electric, trolley electric, or fuel cell-electric. A higher percentage of that in our business will impact the overall blend of EBITDA or margin per EU.

Chris Murray^ Okay. That's helpful. And then on Slide 16 you talked a little bit…

Stephen King^ Chris, sorry, just to chime in, shortly to I think, on the EV side as well, a few years ago, more so pilot programs, smaller orders, smaller projects that customers were doing, they were looking at pilots. And now we are starting to get to those larger orders, some more economies of scale, larger commitments from customers on the EV. So that too, I think, is helping some of the revenue and margin profile on some of those electric customer programs.

Chris Murray^ That's helpful. Thank you. Just if I can just one more, just looking at Slide 16 and thinking about the U.K market for a second. Lots of changes going on in the U.K at the government level. But, I think on a positive note, you saw, I think you called it the largest order for Alexander Dennis since 2019.

We've been sort of waiting, call it pent-up demand for a while for the U.K government to make some final decisions on where they want to go on spending and not only make

those decisions for start getting funds flowing. Are we starting to move into or are you starting to see signs that these orders are now materializing? And if so, how do we think about order growth out of the international group into 2023.

Paul Soubry^ When Boris Johnson was Prime Minister, he planned massive funding for zero-emission buses. And, of course, as we know it's a private operator that bids on performing a public service through providing public transit. That money announced at the time was intended to help operators offset the cost between a diesel bus and a zero-emission bus, that's pre-COVID.

So COVID kicks in and their ridership goes in the tank, the U.K operators are heavily reliant on farebox. So, ridership has started to come back. In fact, it's probably slightly better in the U.K than it is in North America. The operators have not really rejuvenated their fleets. They've been trying zero-emission, and we've had great success with the Alexander BYD partnership in the U.K. But that doesn't mean they've done the fleet as a full fleet renewal up at this point in time.

The fact that we've had a number of government changes over the last 2 or 3 years, falling out of the original Brexit dynamic, which put a lot of stuff on hold, and the fact that there hasn't been the same level of government funding out of U.K government that was expected.

I think these latest orders for diesel buses is we're starting to see customers saying we clearly want to go zero-emission, but without some help we need to rejuvenate our fleets. And they've chosen to do that with diesel buses at this point in time, mostly with diesel buses. Now we still get zero-emission bus orders. We're still making penetration across the U.K and actually within the Alexander Dennis BYD partnership.

We announced last year earlier this story that we also did a revision to that BYD partnership where head into late 2023, 2024. We will be offering our own Alexander Dennis zero-emission offering in the double deck space and the smaller bus space. I think those things are all positive for us.

Scotland has stepped up with quite substantial funding, or the low emission type funding. U.K has lagged. And I think we'll continue to see a lag until we see the global economy, the U.K economy specifically stabilize a little bit, and quite frankly, the government get on the feet underneath them.

Operator^ (Operator Instructions) The next question comes from Daryl Young with TD Securities.

Daryl Young^ Hi, good morning, everyone. First question for me is on the EV and just the rapid growth in the demand for it and the projected future orders. My question is, is the supply chain for EVs specifically robust enough that you could actually deliver on that kind of volume? Are you going to see bottlenecks just from lack of the volume of the

key components that go into EVs in the future? I guess I'm speaking, you're agnostic to the current issues, but just that long-term pipeline of EV componentry?

Paul Soubry^ That's a great question. I think what our supply team has tried to do, and unfortunately has learned the hard way through COVID, is that we can't just order a part and expect that part to show up without us having an understanding of the sub supply chain and the componets that go into it or where the input cost, input components come from and so forth. And go back to what's going on in production line right now, 98%, 99% of the parts are there. So, building the bus is not the big challenge.

It's critical components that have cascading impacts a lot of the market are EV type or electronic related. But, for example, we're missing hundreds of brake pads or brake pedals for motor coaches, that's got nothing to do with zero-emission. We had challenges in the last month or so with seat suppliers. It had nothing to do with zero-emission. The stuff that comes from Siemens or BAE that affect our zero-emission buses or hybrids, we think are isolated to a couple of critical parts where there have been sub-supply chain type problems.

We are way smarter now at how we source and what we expect of our suppliers given the nightmare we went through over the last year and a half, and are now trying to embed those expectations of them having buffer inventories of subcomponents on hand and so on and so forth. Never say never, that we're through this thing. And it's really hard to answer some of these questions about when you get pass the supply chain dynamics, we will always have them.

At this point, I think our team is not worried about late 2023 and 2024. The way we are today, where we're handing off on some of those key parts, again, back to the comments we made in the script. Every bus is different in many situations and therefore managing that bespoke nature of supply chain always has its unique challenges. We are deeper and smarter at where and how we're buying the stuff and the expectations of suppliers. So it'll always be a risk. We're doing everything we can to manage it.

The other part, I guess is, let's just say the other part is trying where we can to have alternative sources of supply. So historically, we had one battery supplier coming on later this year and into next year, we've got a second battery supply for zero-emission buses.

Today, we offer two different hybrid systems, Siemens and BAE. So we're trying where we can to do a source stuff to add not only competitive tension in supply chain, but also the ability to ensure that we can solve our customers problems different way, should we have supply chain challenges.

Stephen King^ Yes, Daryl, just to chime in. Yes, you would have seen an announcement from us last week on Alexander Dennis that they've brought online a new battery supplier in addition to the legacy BYD relationship that they're working with. Then also as Paul alluded to, alternative suppliers that we're bringing on for North America as well. Definitely expanding the supply base within the battery space is really important.

Daryl Young^ Okay, great. And then second question is just around the increase in the average price of the bus in the backlog. I think we're up over 30% now from 2020, 2021 period when a lot of that funding would have been announced. So I guess my question is -- and I think the pricing will probably take another step function higher as the mix of EV continues to evolve. So my question is, how much funding do we actually have available? Or, like, is that chewing into the amount of funding that's been announced to date? Do we actually need more funding?

Paul Soubry^ I would say that, of course, we manage and monitor and track dollars and units, which you're alluding to, and therefore if units cost more money, can you buy less units. So we watch and monitor every customer's fleet, age of fleet and mix of fleet. We take their fleet replacement plans that they publish, and then we fly it forward, that gives us our demand. We have tempered.

There is a scenario that you could actually say, well, we don't need six or seven, 6,500 units a year in North American transit, we need 7,000 or 8,000 to catch up with fleet replacement strategies. What we've tried to do is temper the expectation of the oversize of Mark, or the total size of market expectations with that whole dynamic that buses are going to cost more.

The other reality is not only you could buy a more expensive bus, most operators still have to invest in the charging infrastructure. And money's got to come for that as well, whether it be local money, federal money, matched money and so forth. So, the great news is, there is a lot of money out there, both in Canada and U.S specifically, that are incentivizing operators to push that zero-emission agenda.

And as Stephen said earlier, we went through a period of orders of 3, 5, 7, 10 electric buses, and now we're starting to see 30, 40, 50 to 100. So, our view of recovering through the pandemic, but also the fleet transition looks very healthy and given this whole number of funding. Will they potentially more funding in the future? Absolutely.

Stephen King^ I think what we've seen too is Paul kind of alluded to in Canada, now federal program, multibillion dollar program focused on really driving that transition to zero-emission. And then the U.S., $100 billion plus infrastructure investment and a focus on public transit investments. And like the Low-No grants for example, that went from $180 million to $1.2 billion year-over-year.

So I think the governments have definitely done a good job of putting in a lot more funding to focus on the higher cost of the vehicles. But as Paul alluded, as we go forward to get beyond 2025, 2026, will there need to be more funding, more than likely to reflect the higher cost of these vehicles. But definitely feels like government has definitely stepped up and put a lot of additional funding focused on driving procurements and zero-emission buses.

Daryl Young^ Okay, thanks. And then just the Aftermarket margins and some of those fixed contracts, should we expect that to be a couple of quarters that need to flush through still, or are some of those fixed price contracts coming to an end?

Paul Soubry^ Go ahead, Pipasu.

Pipasu Soni^ Sorry. I thought we were on mute. Can you repeat that question on Aftermarket margins?

Daryl Young^ Just curious if the fixed contracts that are dragging down the margin in the quarter, if those are going to extend over multiple quarters, or if they're close to running off?

Pipasu Soni^ I would say that at this stage, we are close to running off on those. So I don't think they will extend further up from our perspective.

Pipasu Soni^ Yes, I think, Daryl, the way to think about our business, I think in aftermarket and Paul, correct me if I say anything wrong, I think probably a third is transactional.

So somebody orders a part, we provide them 1/3 contractual, and those contractual contracts are definitely shorter term. I think most of that impact will run off and that will be able to reprice and make sure that the adjustments are properly put in place. We also do try to update our pricing list on those contracts to reflect inflation wherever possible.

Operator^ (Operator Instructions) Our next question comes from the line of Mark Neville with Scotiabank.

Mark Neville^ Hi. Good morning, guys. Can you hear me okay? Just having issue with the line (inaudible) broader audience.

Operator^ Yes. We can hear you.

Paul Soubry^ Yes. We can hear you. Coming through.

Mark Neville^ All right. Yes, great, thanks. Perfect. Look, I appreciate that the discussions are sensitive and complex. But I'm just curious sort of if you think that there's a scenario or an avenue to do sort of that you do this or you get relief or further funding that would be non-dilutive, or avoid sort of some dilution, or most dilution?

Paul Soubry^ Well, that's our goal, Mark, is to try and find a way to live with a liquidity that we can manage through with a little bit more patient debt structure that has a little bit of runway to get us our volumes back up and therefore get into becoming a profitable

business that’s generating EBITDA and cash flow to pay down debt, and therefore delever.

Not that we're not looking, but our last desire is to do anything that dilutes our current shareholders. We've done that twice in the last 2 years. And so, clearly that's our objective. And it's a delicate negotiation, which is part of the reason why we've engaged various levels of government to try and see if there's different ways to work with the syndicate to, again, manage their risk expectations, but also not hamper or hinder the opportunity in the future of our business.

Mark Neville^ Right. Understood. I wanted to ask that question. So, just, Paul, you talked about being sold out for 2023? I mean, sort of at what line rate or sort of how should we think about sort of production rates next year, and the fact that you're sold out of (inaudible) sort of what line rate that is?

Paul Soubry^ So, we'll work through our guidance discussions for 2023 once we get our annual operating plan and our long range plan, solidified through the banking discussion that we're working on as well as through Board approval. The current run rate of our business in all of our facilities, all of our product lines is muted relative to pre-COVID. I think I said in the script today that we think we can get back to pre-COVID levels by the end of 2023, and into early 2024.

For example, New Flyer is running its business today somewhere in the early 30s in terms of new line entries every week. Pre-COVID, we were running north of 50. So that's kind of our desire. And you need skilled labor and you need parts availability. And if you don't have both at the same time, you have extreme inefficiencies in your cost base.

So we don't want too much inventory sitting area or too many people sitting around doing anything, or we don't want people that don't have the materials to do that stuff. So ramping up is delicate.

And so we've always said when we do that here, to go from, call it 35 buses a week to 37, and 2 weeks later to 39 to 3 weeks later, it's a phased ramp up rather than a step change. It's just that comfort in terms of how we build labor efficiency, the quality, but we want to get back to close to pre-COVID levels by the end of 2023 and early 2024 from a run rate perspective.

Mark Neville^ Okay. That's super helpful. And just the last question on the idling. Curious, is that completed, and it's still ongoing and has been extended, just sort of an update there?

Paul Soubry^ Yes. So we started it 2.5 weeks ago. We extended it and adjusted it for each of the plants depending on their unique build schedules. But I think I believe after this weekend, we are back to line entries as the way they were previous to the idling. Unfortunately, during the idling, that means a number of people get actually temporarily laid off, which is not a fun thing to do to people, especially this time of year.

We do have a number of crews, retro crews, volunteers in some cases that are willing to work during those no-line entry weeks to help us burn off or complete the excess work in process. So we're through most of that. The objectives of getting supply to get caught up at a briefing the other day that the vast majority of the parts that we expected have come in there still a couple of problem parts that the team is working on expediting.

And it has also helped us I don't know the magnitude quite yet, but it helped us deliver some of the offline buses and it worked on those offline hours. So we'll see that transpire over the next couple of weeks as we start to deliver more vehicles or complete and deliver more vehicles. And so that whole period of time was two objectives,: one) not induct more units that would create more known offline WIP; and number two) help us work off the excess work-in-process.

Stephen King^ Sorry, just to jump in, you're correct. Yes, next week is when we'll be fully back to kind of, again, pre-idling run rates, but everybody should be back into at some point next week.

Operator^ (Operator Instructions) The next question comes from Alex Hutton with National Bank.

Alex Hutton^ Hi, everyone, Alex Hutton on for Cam Doerksen today. I noticed that ADL recently won that 200 plus award in the U.K., which is great to see. But we've also seen some of your competitors in the U.K market have some good order success as well. We're wondering how Alexander Dennis's market position is in the U.K and how the competitive environment have changed? Just hoping to get a little bit of color on that.

Paul Soubry^ That's a really good question. So, there's three major domestic competitors in the U.K. There's Alexander Dennis, who is by far the market leader. Number two is Wrightbus. And number three is Switch Mobility, which used to be called Optare. We also have buses that are sold that are manufactured offshore in China, for example.

Wrightbus, the number two player did go through a bank reorganization or whatever the words are in the U.K a couple of years ago, has recovered somewhat, but has nowhere near the volume they had pre that registration process.

Our market share has continued to stay upwards of 60% something in the U.K. And way in excess of that when it comes to the zero-emission buses. Wrightbus is now offering electric buses as well as fuel cell buses and have won some orders. Optare or Switch has not really gained much traction. And we see the continued same kind of penetration from the Chinese players.

I said before in one of the questions, we're pretty excited about what Alexander Dennis is doing. The option to be able to deliver diesel, if you will, or hybrid buses on their own platform today, the ability to offer buses on the Alexander Dennis body on a BYD electric platform and soon an all-Alexander Dennis platform with our own battery and

battery management electronics package, which has got tremendous response from a number of the operators.

Quite pleased with the market positioning, the competitive performance and so forth of Alexander Dennis. Albeit, we bought the business 6 or 8 months pre-COVID, and so the entire market has been materially impacted by it. I don't see our competitive positioning get any worse in any stretch.

Operator^ (Operator Instructions) I have a follow-up from Kevin Chiang with CIBC.

Kevin Chiang^ Thanks. Just one follow-up question from me. Paul, you mentioned just kind of ebbs and flows with your labor now as your production ramps up and down. Just wondering, is that exacerbating any labor shortage issues you're facing, or turnover? I know labor was an issue for you through the pandemic. Not sure how that sits today and whether the supply chain issues are exacerbating that?

Paul Soubry^ Well, there is no question that labor is our problem and everybody's problem number two, in our world and Stephen talked about this to our competitors have had shut down weeks, our competitors have offline WIP awaiting parts and so forth, which then impacts their ability to run their facilities just like we have.

We have, let's call it, excess labor today in our facilities, because we have to both build buses online and manage and complete the offline web. So there's not free, but there's available capacity, what's the offline web goes away for us to actually increase with existing manpower levels.

To get back up to pre-COVID levels, there's no question we're going to have to go and do more hiring as we get through 2023 and into 2024, which goes back to our kind of perspective of maybe a broader recession in some markets might allow the availability of labor because it is no question difficult to hire people in any of our markets today. And we've all had pressure on wage rates and benefits and those kinds of things.

No, there's no question and no doubt that our number one problem over the last year and a half has been parts availability. Turnover in certain plants have been a little higher than others, but they've been as best we can tell under industry averages of turnover. We have adjusted in many cases the wage rates across the businesses, some as a result of union negotiations, some of that we've done on our own just to make sure we're competitive in those individual marketplaces.

The next chapter, once we get more and more confident in supply chain is to use that available capacity to build buses right the first time, and then to selectively hire where we need to. There are key skills that continue to be a problem in everybody's markets such as trades people, welders, electrical people, and so forth.

And so we've ramped up at working with local institutions as well, some of them many of our own programs at kind of apprenticeship or training type programs in many of those

key core skills knowing going forward, the buses are not going to get less complex or maybe get more complex.

Kevin Chiang^ Perfect. That makes a ton of sense. Thank you very much. That's it for me.

Operator^ At this time I'm showing no further questions. I'd like to hand the conference back to Mr. Stephen King.

Stephen King^ Okay. Thanks, Norma. We do have one question on our webcast that comes from Simon Chiu. It just says, have you seen customers more hesitant in placing firm orders on your contract with NFI after you announced the need for covenant relief?

Paul Soubry^ Great question, the answer is no. In every one of our situations, specifically in public situations, we have often bid bonds, or often performance bonds in place that help the customer understand and have comfort that we are or can deliver on the product that they've ordered with us.

The vast majority of times our proposals have financial statements embedded in them. We have complete disclosure with our customers about our challenges and so forth. We have for the last 2.5 years dealt with short-term covenant dynamics and been very transparent with our customers. To date, we have not seen any adverse impact.

Stephen King^ Hi, Paul, I think you covered everything. But again, as I mentioned earlier, definitely an industry issue. We haven't seen any public customers cancel. And I think they all realize that as well our competitors have the similar issues.

If you cancel an order or if you went with a different provider, it's going to be that same delay in delivery and challenge. And I would say the good news for us as industry leaders is we've got that track record of performance, that track record of delivering the highest quality vehicles and best performance for our customers.

But again, yes, definitely an industry issue on the supply challenge, which I think our customers definitely realize and appreciate. And as Paul alluded to, we have definitely seen our backlog grow and seen our awards come in. And like we said the highest bids on record in the third quarter. Demand is still very, very strong. With that, I think we have answered all the questions, so we will wrap up this call.

Norma, I know you'll close it out, but I just want to say for everybody. There will be a recording as to on our website, as well as the presentation and a copy a transcript of this call will be on our website. We will talk to everybody again soon. Thanks. Have a great day.

Operator^ This concludes today's conference call. Thank you for your participation. You may now disconnect. Everyone have a wonderful day.