NFI Group - 2023 Q1 Results

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Corporate Speakers:

- Stephen King; NFI Group Inc.; Vice President, Strategy & Investor Relations
- Paul Soubry; NFI Group Inc.; President, Chief Executive Officer & Non-Independent Director
- Pipasu Soni; NFI Group Inc.; Executive VP & Chief Financial Officer

Participants:

- Chris Murray; ATB Capital Markets; Analyst
- Daryl Young; TD Securities; Analyst
- Cameron Doerksen; National Bank; Analyst

PRESENTATION

Operator^ Good day, and thank you for standing by. Welcome to the NFI Group First Quarter 2023 Financial Results 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.

Stephen King^ Thank you, Michelle. Good morning, everyone, and welcome to NFI Group's First Quarter 2023 Results. This is Stephen King speaking. On Slide 2, you will see that joining me today are Paul Soubry, President and Chief Executive Officer; and Pipasu Soni, Chief Financial Officer.

On today's call, we will provide financial results for the first quarter, provide information on the record bid and order environment, an update on supply chain and our capital allocation priorities will also cover our longer-term outlook and anticipated financial recovery. 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 webcast link, we will also call out the slide number as we go through the deck for participants on the phone.

Starting with Slide 3, 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.

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. One other item to note, NFI has retrospectively adopted IFRS 17 for insurance contracts on January 2, 2023, please refer to our MD&A for details of the impact of this adoption.

On Slide 4, we have 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 you'll hear throughout our presentation, and they represent both production slots and delivery statistics. Most of our vehicles represent one equivalent unit, while an articulated 60-foot transit bus takes two production slots and is therefore equivalent to 2 EUs.

Slides 5, 6 and 7 provide a brief overview of NFI. For those of you new to the story, interested listers are encouraged to visit our investor website and listen to our 2022 Q4 results call for a more in-depth introduction to our overall business. NFI continues to lead the evolution to zero-emission, or what we call the ***ZE***volution™. Slide 8 provides statistics on our capabilities and performance in ZEBs. The 2,891 electric vehicles we've delivered since 2015 have completed over 115 million electric service miles in 130 cities across six countries.

Demand for electric vehicles continues to accelerate quickly, and our North American bid universe over 50% of anticipated customer purchases over the next 5 years are expected to be for electric vehicles. I'll now pass it over to Paul, who will recap the company's financial results for the first quarter.

Paul Soubry^ Thank you, Stephen, and good morning, everyone. I'll begin on Slide 10 with a summary of our first quarter 2023. We continue to see record demand for our products and services, paired with the continued supply chain disruption and associated production efficiencies, but we have seen and are experiencing encouraging signs of improvement on both fronts. In the quarter, manufacturing segment of bus and coach deliveries was up 20% and revenue up 18%, with Adjusted EBITDA up 42% from 2022 Q1.

This significant improvement in Adjusted EBITDA driven by improved volumes and enhanced product mix. We also had fewer legacy inflation-impacted contracts that were originally bid in 2020 and 2021 in the first quarter. And so, while there was an overall improvement, the manufacturing segment continues to be impacted by certain supply disruption as well as lower-than-expected ZEB deliveries and legacy inflation-impacted contracts.

Our work-in-process increased in the quarter, in part due to typical seasonality, but also as a result of delays related to the installation of new draining technology within the energy enclosure systems for certain New Flyer battery electric buses in North America. Initial work on the drains commenced in the second quarter, and we expect to start delivery that impacted those vehicles late in the second quarter, and they will continue through the second half of 2023. Aftermarket continues to provide strong contribution with increases in revenue, gross margin, and Adjusted EBITDA, and with return on sales of 21%. This exceeded our expectations and, to us, is a sign of the strength of our leading aftermarket parts business in both North America and the U.K. and Asia-Pacific regions.

Now Stephen just talked about ZEB metrics, and so I'll skip over to our demand environment, which, after reaching numerous records in 2022, achieved even newer and higher heights in 2023. Year-over-year, our North American public bid universe is up 18%. New orders to NFI are up 33%, and our active bids are up 99%, reaching 11,066 equivalent units, the highest number of quarterly active bids we've ever had.

We entered the first quarter of 2023 with 2,833 equivalent units bid in process and another 8,233 equivalent units bid submit, which we expect to translate into steady orders throughout the rest of this year and growing our backlog going forward. Our backlog has now reached a staggering $6.7 billion, up from $4.9 billion at this time last year. It is our highest dollar value ever, and NFI has a steady demand environment for today, for our short-term order book and for our future.

On the next two slides, we'll provide graphs that provide an update on the supply disruption and some of our associated inefficiencies as a result. First, on Slide 11, is our supplier risk ratings. This data is compiled from a detailed risk assessment process that we've been doing for many years that monitors and evaluates the risk and potential impact of supplier disruption of NFI's top 750 suppliers. After an incredibly challenging period from late 2021 throughout all of 2022, we have now started to see positive and significant improvement. While there are challenges that continue to persist and our supply chains on a few fronts are not completely healthy, we continue to take actions to improve parts availability and are experiencing improvements in on-time deliveries from our suppliers. This supports our outlook to start the gradual ramp up production in the second half of 2023 as we planned.

Now these disruptions inform the graph on Slide 12. These are our quarterly vehicle line entry rates, or, otherwise stated, the number of new buses and coach builds that we started our production facility each week and our quarterly work-in-process dollar investment. Line entry should be in the 1,500 units a quarter range similar to 2019. The results of the pandemic and supply disruption are evident.

This data shows that our facilities were extremely inefficient, and our teams were frustrated that could not complete vehicles, growing our work in process of buses and coaches that were missing certain parts and components and had to be retrofitted offline. Line entries improved in the first quarter of 2023 to the highest levels we've seen since early 2021. We now expect production to continue to scale slowly as we ramp up in tandem with our supply chain improvements throughout the second half of this year.

As you can see on Slide 13, we have continued to take actions to improve parts availability that have had a meaningful impact on our production and position us well for our expected increase in vehicle production in the back half of this year, an amazing effort by our sourcing, supply, engineering and operations teams in cooperation with our suppliers. I'll now ask Pipasu to walk you through details of our financial results. And, after that, I'll come back and provide an update on our outlook. Over to you, Pipasu.

Pipasu Soni^ Thanks, Paul. Picking up on Slide 14, we outlined the backlog growth Paul discussed. With 4,910 EUs of firm orders, we have essentially sold out 2023 production slots, albeit lower production levels with good visibility into 2024. We now have options out to 2028, providing significant visibility for future years. Quarterly deliveries were flat within heavy-duty transit in response to continued supply challenges. Both motor coach and cutaway sales were up year-over-year, illustrating signs of recovery in these markets. We also saw higher average sales price across all segments, reflecting our ongoing efforts to adjust contracts for inflation as well as the transition to higher price zero-emission vehicles.

On Slide 15, we provide key financial indicators. Adjusted EBITDA exceeded expectations at $7.4 million, and Free Cash Flow, while negative, increased by $11.5 million, or 29% year-over-year. Liquidity ended at $124.1 million, down $19.4 million from the end of 2022 Q4, primarily due to increased drawings from our credit facilities to support increased working capital, primarily part inventory and off-line buses that Paul mentioned.

Slide 16 shows our gross margin by quarter from 2019 through the first quarter of 2023. Aftermarket saw some pressure in 2022 due to inflation and freight impacts, but significant improvement in the first quarter from our efforts to mitigate parts price increases and lower freight costs, combined with improved economic conditions. Manufacturing margins appear to have hit bottom in the second quarter of 2022, with steady improvement since even as we continue to manage through the impact of rapid inflation from contracts won in the previous year, supply disruption and significant production inefficiency.

On Slide 17, we outlined the impact to our Net Loss and Adjusted Net Loss. Our Net Loss for the quarter increased by $18 million from 2022 Q1, primarily due to increased interest and financing costs. Adjusted Net Loss decreased after factoring in normalizations for a fair market value loss, our interest rate swaps and the lower gain on the cash conversion option related to our convertible debt. On Slide 19, we summarize our capital allocation priorities. We're working diligently with our banking partners to complete amended agreement as planned by the end of 2023 Q2 and remain focused on cash management, liquidity, and strengthening our balance sheet.

The proceeds from the Manitoba Facility and the EDC Facility received in January 2023 supported liquidity and accounts payable during the quarter. WIP levels remain elevated, but we expect a reduction to start late in the second quarter as buses and coaches missing components and ZEBs requiring a new drain technology are completed and delivered. These deliveries will continue through 2023. As we advance credit amendments, we are exploring other potential opportunities to generate cash flows, including customer prepayments and capital market activities. A shelf prospectus was put in place to provide us the optionality related to these activities.

Turning to Slide 20, we provide an update on the credit timeline. NFI is pursuing multiyear agreements that provide capacity, flexibility and covenants match to our anticipated financial performance and recovery. We continue productive discussions with our senior credit syndicate to advance amendments and hope to announce details of these efforts in the near term. I'll now turn the call back to Paul to discuss our outlook and financial guidance.

Paul Soubry^ Thank you, Pipasu. I'm now on Slide 22, and I'll move quickly through the next few slides to explain the drivers of our recovery and that support our longer-term outlook. On Slide 22, we provide a summary of some of our key demand metrics. The chart shows a 5-year outlook from our North American bid universe along with known and active bids. The active bids of our over 11,000 equivalent units, combined with a 5-year customer projected outlook for procurements at another 20,100 EUs, providing a record total bid universe now of over 31,000 equivalent units, which supports our view that vehicle demand will continue to remain high going forward.

Our Infrastructure Solutions™ business also continues to deliver and since inception, has been responsible for the insulation of 356 plug-in and 35 on-route charging projects for over 58 customers with projects now under contract with 10 additional customers for 2023 through 2025.

This is an important part of our business as it creates a turnkey offering of infrastructure and vehicles that help customers on their electrification journey. On Slide 23, we highlight another impressive quarter of wins with 1,873 equivalent units of new orders for a total of 6,250 EUs of new awards during the LTM period. We reported numerous multi-year orders from major Canadian and U.S. customers and significant zero-emission orders from customers in the United Kingdom and Hong Kong during the period. We also continue to see customers use state and other procurement schedules to help speed up their vehicle orders in the United States.

On Slide 24, we show that these orders continue to drive our order book and our book-to-bill ratio, which remains well above 100%. We expect the book-to-bill to remain about 100 throughout all of 2023. While option conversion rates on an LTM basis were a low of 21%, this is expected to be a temporary issue as we have seen numerous older internal combustion engine and legacy EV orders expire being replaced with newer zero-emission bus and new technology buses. We anticipate that conversion rates will improve dramatically as we move through 2023 and into 2024.

On Slide 25, we provide a quick summary of the record government funding in each of the major markets in which we participate, which continues to drive the heightened bid environment. For a more detailed overview of the funding environment for each of those unique markets, please refer to our 2022 fiscal year results call on our website. Turning to Slide 27. We again reaffirm our guidance for 2023 and 2024, and our targets for 2025. With positive improvements in supply chain performance during the first quarter, we continue to view fiscal 2023 as a transition year and the beginning of our recovery.

There will be growth from 2022, but we will operate at lower production levels in the first half of 2023, prior to a gradual ramp up in the second half. Exiting 2023 at higher production levels will benefit 2024 and 2025. Our experience shows that increased efficiency and volumes drive margin enhancement – this was apparent in our results in 2015 through 2018. Going forward, we anticipate the overwhelming majority of our contracts to be built in 2024 and 2025 to be now appropriately priced, matching higher material input and wage costs to our contract pricing.

We also anticipate Adjusted EBITDA of $30 million to $60 million in 2023 for the guidance that we provided previously, followed by a significant increase to $250 million to $300 million of EBITDA in 2024, driven by production increases, volume recovery and cost management, and a 2025 target of approximately $400 million of adjusted EBITDA. We are very confident that we can achieve our target, with the expectations that we'll exceed $400 million of Adjusted EBITDA as we get into 2026.

We've also maintained our ROIC target for greater than 12% for 2025 with the potential for significant outperformance on this metric as we deliver our balance sheet and see improvements in our working capital investments. On Slide 28, you can see that the zero-emission buses as a percentage of our total deliveries have been increasing rapidly, going from 8% in 2020 to 23% last year in 2022, with the expectations for additional growth in 2023 and beyond.

In the first quarter of this year, 21% of our deliveries were zero-emission. Although this was somewhat depressed due to the delays related to the requirement for the new drain technology to be installed within the energy enclosure systems for certain battery-electric buses in North America, that will recover in the second half. Zero-emission buses as a percentage of our backlog have also been growing quickly, doubling in size from 2021 to 2022 and reaching now a record of 36% in 2023 Q1.

Slide 29 highlights that our backlog pricing is also up significantly within both the heavy-duty and motor coach segments. This reflects a combination of higher zero-emission orders, plus inflation adjusted pricing to be reflected in our new contracts and bids.

Finally, I'd like to remind everybody and announced that our Chair of our Board, the Honorable Brian Tobin will be retiring today after 18 years as our Chair.

Brian stayed on for a couple of extra terms during the COVID period and supply chain realities, and we are tremendously grateful for all that he has done for our business. Later today at our Annual General Meeting follows the election. Ms. Wendy Key will take over as the new Chair of NFI.

With that, I'll turn it back over to Stephen to summarize our investment thesis and then open the mic to questions.

Stephen King^ Thanks, Paul. On Slide 30, we provide this short summary of our story and investment thesis. We are market leaders with unprecedented demand for our products and services. We are poised for recovery with plans to ramp up production slowly in tandem with sustained supply chain improvements. We are focused on completing our capital markets efforts to establish amended credit facilities, so we can place our complete focus on operations and driving the business forward.

While our targets may seem aspirational compared to today's results, we have a history of outperformance and the road to $400 million of Adjusted EBITDA is achievable, effectively recovering slightly beyond our pre-COVID levels or pro forma $333 million of Adjusted EBITDA. This is especially true when viewed within the context of the strength of our order book backlog and the ongoing demand for our vehicles and aftermarket parts. It has been a positive start to 2023, and we are confident in NFI's future. As always, we are proud of our history and excited about the future ahead of us as a market leader. We'll now open the line to analyst questions. Michelle, please provide instructions to our callers.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) First question comes from the line of Chris Murray with ATB Capital Markets.

Chris Murray^ So just turning maybe to the discussion around the credit facility. Wondering if you could give us some more color, originally, I think you had kind of indicated that you wanted to have this in place before you reported today. Just wondering how this is going. Any progress you're making? And I guess, the other piece of this, the existing facility was due to mature early in 2024. As part of this discussion about also perhaps extending this for a longer term at the same time? Any color you can provide on the process would be appreciated.

Paul Soubry^ Thanks, Chris. Appreciate the question. It's Paul here. So the extension we received, the sixth amendment to our agreement that was done through the COVID and supply chain dynamic, was completed, as you know, in December, and it had an expiry date of the end of June [2023]. As you know, we issued a shelf prospectus in February to kind of introduce and provide us several options going forward. The credit negotiation with the syndicate has gone very well. We are on track and expect to have that completed by the end of June, which is our target, which is the current term of that agreement.

The term of the agreement going forward and the work that we're doing with the syndicate and just a shout out to the syndicate, look, these teams, 11 different banks have gone back to their credit committees several times on our behalf over the last couple of years. We understand their drivers of risk mitigation and ensuring we have flexibility going forward. Very pleased with where we're at with the syndicate, and there is no question that we are looking for a term that goes out 2 to 3 years to allow us runway as we manage through the recovery we talked about in today's call.

Chris Murray^ That's helpful. You also mentioned previously that you thought you were able to do this without having though to issue additional equity. Is that something that you think is maybe going to have to be more fluid in the future? Or is that something -- I don't think that's achievable?

Paul Soubry^ As we evolved our business over the last couple of years, and never would have imagined the hit we took in 2022, the discussion with the banks is wide open on all different opportunities. Part of the shelf was to open the breadth of the tools and the instruments that could be used. It all starts with a credit agreement. And so any other things we do, whether it's looking internally our facilities and our capability, things like sale-leaseback or things like customer advanced payments prepayments and so forth, milestone payments from some of those customers.

Obviously, the WIP reduction also plays into the conversation. First step is to get the credit agreement done and to finalize that with respect to any of the other actions we will take. And so stay tuned. I expect, as I said, before the end of June to be able to give you some really solid color and insight in exactly what we're going to do.

Chris Murray^ All right. That's helpful. Just looking at the quarter's results. Aftermarket, I think I've never seen a number quite like that in terms of margin performance. Can you just maybe provide some additional color? And is this going to be like a one-off number because this is approaching like a 30% margin number, which, again, usually you're happy in the high teens. So if you could just give us some color on maybe what happened there if there's anything unusual or one-time in that? And how does that play into the rest of the year, please?

Paul Soubry^ Well, super question, Chris. I appreciate you highlighting that. Our teams have done a really good job of responding. Both, as I said in my comments, both the North American business and the international parts business were ahead of our plan. From a revenue perspective strong, and the split between private customers and public customers, both showed improvement, which to us, reflects the recovery. Many people look at our business and look at ridership as the barometer of the health of our customers. And, while readership is critical, the whole reality around getting buses back in service, customers optimizing their route structures, and all those things to keep those buses moving has helped. Through COVID, we had a number of situations where customers were more focused on execution and their own survival than they were on planning inventories. That's the first issue.

The second issue is that we've really worked hard over the last 2 years on dynamic pricing. And by that, I mean, roughly 60% of our business is day-to-day or quote-by-quote, as opposed to 40% of our parts business which is contractual or multiyear contracts. So, as we've seen price increases over last year, whether it's from our suppliers or from the freight and surcharges and those kinds of things, our teams have worked really hard to ensure that we are adapting our prices to our customers as we see any changes in cost base. We're not swallowing margin hits like we saw in the past.

You've also got a positive environment right now where inflation has started to slow down. Freight costs have come down, and surcharges, for the most part, have slowed down. And so the other part of this is we are working crazy hard on the management of our freight. Context, you may see this in the financial statements, but rough order of magnitude, our North American parts business cost about $35 million of overhead and SG&A to run the business for a year. We spend about $33 million to $35 million of freight, bringing it in and then shipping into our customers. So, we are working really hard at optimizing freight and delivery to our customers, which has had a positive impact on the business.

All those things have been really positive. I'm not so sure that it is sustainable at the same level to the second part of your question going forward. But I think we've proven that we've mitigated what happened to us in kind 2021 and 2022, and we're now in a much better position. The other reality, quite frankly, as we are the largest player, both in North America and domestically for our products and some of the others, is that we have had availability of material better than some of our competitors and our ability to satisfy our customers' need is based on our size. All those things have conspired to really help us show a solid quarter. And, quite frankly, we're projecting a solid year in our aftermarket parts business.

Operator^ Our next question is going to come from the line of Daryl Young with TD.

Daryl Young^ Just one quick one for me. With respect to the longer-term 2024 and 2025 guidance, and I guess the battery drain issues that you described for the ZEB buses. Just wondering how you're thinking about some of those inefficiencies as we go through this evolution to the battery-electric buses. It's been an enormous transition for the industry, and it will likely be some technology teething pains as we go through that. So what kind of buffers are you building into that guidance to reflect some of those unexpected technology and efficiencies in the future?

Paul Soubry^ Yes, that's a super question. First of all, the forecast that we've used for 2024 and 2025 on total volume are still not at the levels that we expected or that we have or pre-COVID, so we clearly expect market recovery, total number of deliveries as an industry and us to recover, but the line isn't as steep as some may think on the surface. And primarily because the selling price for zero-emission buses is higher and the margin is higher. So, we don't have to sell as many units. The second issue is, we've tried to go after through our NFI Forward and NFI Forward 2.0 initiatives to adjust our cost base, and we've talked a little about that kind of over the years.

We've got the added performance and strong performance and forecast associated with our parts business as well as our Infrastructure Solutions™ business. All those things kind of lead up to a zero-based budgeting, if you will, of units, dollars, margins, mix to get to those 2024 and 2025 target levels. There is no question that the percentage of orders that we're getting right now associated with zero-emission has gone up. And we took the conscious decision a couple of years ago not to build zero-emission buses on different production lines. By definition, that is built in some efficiency of building a zero-emission bus or an internal combustion bus or a natural gas bus and so forth on the same production line.

We have tried to design those lines to be as flexible as possible. And, quite frankly, the more zero-emission [buses] we get on the lines, the more efficiency will also get. We're also in the process, as you know, of shifting some of the supply chain because the suppliers of batteries, harnesses, inverters, all the electronic components are migrating more to that zero-emission type environment. So we're cautiously trying to manage the mix over that period of time.

The last thing is you're absolutely right. There is no question that there are teething pains, learning pains, associated with zero-emission vehicles. This whole drain dynamic is a result of an unintended consequence that, by the way, has not just affected NFI. We've seen almost all of our competitors have some kind of a recall associated with the battery enclosures. The reality is that there is both high-voltage cables connecting the batteries inside of these battery systems as well as their cooling systems. And we've all learned very quickly about the potential for leaks.

Now, originally, the battery enclosures were designed to be completely self-contained and not be able to deal with leaks. The addition of drains is a safety measure to ensure that if there is a leak inside a battery enclosure that leaks out, that it doesn't create a potential thermal event. We've learned a ton about sourcing, the deployment, the design of all these kinds of things. We continue to do that.

The other part of it is that as we've had more and more of a solid order book over the last year, and, leading into 2024 and 2025, we have a lot more visibility on our expected margin based on our current costing approach that we're able to deploy in our pricing going forward and our win rates have been very, very strong. So, all those things have really helped us feel comfortable with the numbers that we've put out, and we continue to learn as the fleet adopts zero-emission vehicles, whether it be battery-electric or hydrogen fuel cell related.

Daryl Young^ Got it. Okay. That's great color. And then just one more. I mean, pricing, you've made huge headway on the average price in the backlog. How much more do you need to put through? Are we getting close to having recouped kind of 100% of the cost at this point of the inflation cost on the price?

Paul Soubry^ Well, that's a great question. And of course, as we've guided and we've been clear in 2023, a good portion of what we're building is still stuff that was bid in 2021 or 2022 pre- the massive inflation that we saw primarily last year. What would the teams have been pricing since the first -- really the fourth quarter and the first quarter this year, includes all of the inflation that we experienced, and we've done a lot more work to validate the pricing from suppliers and the contractual relationships we have to ensure that we can manage going forward and deliver with the margins we expect.

And we have gotten more aggressive and more defensive or conservative, if you will, on the expected margin given that the risk profile that we saw historically. So, we're feeling really good. And, of course, as you know, every time we bid, we're not bidding based on a standard cost. We are actually 60% to 70% of those costs were actually getting quoted from suppliers. So all of our pricing now reflects that higher inflation base.

Operator^ (Operator Instructions) Our next question comes from the line of Cameron Doerksen with National Bank.

Cameron Doerksen^ I just want to ask a little bit about the supply chain. I mean, I look at the line rate entries in Q1; it's the highest we've seen for quite a number of quarters. Obviously, good progress. But I guess what should we read into that number? Is that a reflection of you're seeing the ability to start to ramp production? Or was there something unusual that happened in Q1? I'm just wondering if you can maybe talk through how you're seeing the supply chain and your ability to ramp up deliveries.

Paul Soubry^ Well, on one of the slides today, we showed you the number of our suppliers that were medium risk, but high severity or high risk and high severity impact on the business. And it has dramatically come down. We peaked this time last year at 50 suppliers that could essentially shut our lines down. And so I would think more of last year has massively stunted line entry rates, trying to manage through what we knew we're going to be putting buses online where we didn't have all the parts. The first quarter this year reflects a much, much better confidence we have that the parts are available. It also reflects the fact that we probably have 2.5x as much spare parts inventory inside the business to suffer as best we can where we know we have some supply challenges.

Of course, we can't do that because of some of the customized nature of the customer spec buses. The plan was to slowly start to gradually increase the line entry rates across the business as we've gained more and more confidence. There's no question we still have labor inefficiencies. We still have expedited costs to bring parts in. There is no question, there are certain commodities that we still have problems with, such as wiring harnesses is probably the one that we're still managing through that's the most visible. There are certain components that are one-offs like seats or windows that we have problems with certain suppliers that are ramping up their business and are not yet a stable production.

So last year was massive [impact], kicked off by chip shortages and then all the electric components and so forth. We had numerous weeks last year we either shut down or stopped line entries just so that we didn't overburden our facility with offline WIP Our schedule attainment last year was probably 60%. This year, it’s north of 90% or 95%. So, what you're going to see is that number continue to look solid through the second quarter [2023], and we'll continue to ramp it up in the third and the fourth quarter of this year so that we're ready for a much solid recovery as we forecasted for 2024.

Cameron Doerksen^ Okay. That's very helpful. And maybe sort of an associated question as it gets around the cash and specifically the working capital investment. Obviously, the WIP has gone up and you invested some working capital in Q1. What should we think about for Q2 for working capital? And then as you do ramp production in the back half of the year, what is the working capital investment needed for that?

Pipasu Soni^ If I kind of think, this is a Pipasu. If we really think about our North American bus and coach business, one of the things is, today, we're probably somewhere around 250 units of excess working capital. We've talked a little bit about that; Paul kind of mentioned it. We do expect that to decrease by somewhere in the 50-80 units in Q2 is what we're forecasting today and then really kind of seeing that unwind in Q3. And, by the time we get to Q4, we would be back to some normal working capital levels.

Paul Soubry^ The other issue, Cameron, is as we start to deploy this drainage technology to zero-emission buses, we deliver them, they need to get accepted, then we invoice, and we need to get paid. So, the working capital doesn't reverse as quickly as we'd all like, which is why we forecasted to continue to have high levels of both WIP and working capital in the second quarter, and it starts to unwind in the third and more significantly run lines in the fourth quarter. Our target and our plan as we head to the first quarter of 2024 is to have somewhere in the neighborhood of 250 or so buses that are currently in excess to our targeted WIP eliminated from our working capital profile by the end of the year.

Operator^ I'm showing no further questions at this time. I would like to hand the conference back to Stephen King for any further remarks.

Paul Soubry^ Before Stephen wraps it up, it's Paul Soubry, I just wanted to summarize. We are really excited about our business in the recovery mode. The things we talked about both in our prepared remarks, but also the Q&A around customer confidence in our business around the pricing and the backlog that we've been able to secure. And now we're starting to see really significant improvements in supply chain performance. But I just want to be clear, it's not a light switch.

We still have issues that are causing inefficiencies in our business, and we still have to actually execute on with production, delivery or invoice and receivables. So, we think the path we've got set up now for now to the end of the year, all the elements are in place. We'll continue to see more supply chain improvement, and we are excited about 2024 and 2025 as we head into those periods. Stephen, over to you to wrap it up.

Stephen King^ Yes. Thanks, Paul. Thanks, everybody, for joining the call. Just a reminder that our AGM this morning at 11:00 a.m. EST. We're at First Canadian Place, 100 King Street West on the 24th floor and we'll also be webcasting the AGM, details of which can be found on our website, along with all of our investor materials and a replay of this call and the transcript will be available there as well shortly. Thanks so much, and have a great day.

Operator^ This concludes today's conference call. Thank you for participating. You may now disconnect.