NFI Group Inc. (2021 Q1 Results)
May 6, 2021

Corporate Speakers
- Stephen King: Group Director, Treasury, Corporate Development & Investor Relations, NFI
- Paul Soubry: President, CEO & Non-Independent Director, NFI
- Pipasu Soni: EVP & CFO, NFI

Participants
- Chris Murray; ATB Capital Markets Inc.; Analyst
- Nauman Satti; Laurentian Bank Securities, Inc.; Analyst
- Margaret MacDougall; Stifel Nicolaus Canada Inc.; Analyst
- Cameron Doerksen; National Bank Financial, Inc.; Analyst
- Jonathan Lamers; BMO Capital Markets Equity Research
- Daryl Young; TD Securities Equity Research; Analyst

PRESENTATION

Operator: Welcome to the NFI 2021 First Quarter Financial Results Call. My name is Hilda, and I will be your operator for today. (Operator Instructions)

And now I would like to turn the call over to Mr. Stephen King, Group Director, Treasury, Corporate Development and Investor Relations. Mr. King, you may begin.

Stephen King: Thank you, Hilda. Good morning, everyone, and welcome to NFI's First Quarter 2021 Results Conference Call. This is Stephen King speaking. Joining me today are Paul Soubry, President and Chief Executive Officer; and Pipasu Soni, Chief Financial Officer.

For your information, this call is being recorded, and a replay will be made available shortly. On this morning's call, we will be walking through a results presentation that can be found in the Investors section of our website. We will be moving the slides via the webcast link, but we will also call out the slide number referred to as we walk through the deck for participants on the phone.

Starting with Slide 2, I will remind all participants and others that certain information provided on today's call may be forward-looking and based on assumptions and anticipated results that are subject to uncertainty. Should any one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected. You are advised to review the risk factors found in NFI's press releases other public filings on SEDAR for more details.

We also want to remind listeners that NFI's financial statements are presented in U.S. dollars, the company's functional currency. And all amounts referred to are in U.S. dollars unless otherwise noted.

On Slide 3, we have included some key terms and definitions to refer you to as you review the information contained within the rest of this presentation. Of note, zero-emission buses or ZEBs, as we refer to them, consist of trolley-electric, hydrogen fuel cell-electric and battery-electric buses. Equivalent units or EUs is a term we utilize for both production and deliveries. The majority of our vehicles represent one equivalent unit, while an articulated 60-foot transit bus takes two production slots, and therefore, is equal to two equivalent units.

I'll now pass it over to Paul, who will recap the quarter.

Paul Soubry: Thanks, Stephen, and good morning, everyone. Before I get into the details of the quarter, for those not as familiar with NFI, I'll quickly provide a little bit of background on our business, specifically our leadership position in zero-emission, battery-electric, fuel cell-electric mobility and how we are driving the transition to a cleaner, electric future or what we call the ***ZE***volution.

I'm now on Slide 4. NFI is a total mobility solutions provider offering full turnkey solutions of our infrastructure installations, vehicle production, aftermarket support, training and telematics, with the strongest zero-emission bus offering in all of our core markets with the widest range of battery-electric mass transit vehicles, ranging from single deck to double deck, articulated, medium-duty and motor coaches.

Our combined businesses have over 450 years of bus and coach experience, and we've been making electric buses for more than 50 years now. Our track record shows that we have been innovators and drivers of new technology for decades. We led the adoption of clean diesel, natural gas, hybrid-electric buses in North America, all of which we still make today, and we are now leading the transition to battery- and fuel cell-electric vehicles. Zero-emission buses represents about 10% of our first quarter deliveries, and our backlog is now at 18% being zero emission. NFI has the capacity to produce up to 8,000 equivalent units annually. And we anticipate that 20% to 25% of our 2021 production will be zero-emission buses, more than doubling 2020 ZEB production.

On April 22 to, celebrate Earth Day, we achieved a major electric vehicle milestone, including the completion of over 40 million service miles by our battery- and fuel cell-electric vehicles and the installation of over 200 electric chargers. Through this mileage milestone, NFI EVs have prevented nearly 112,000 imperial tons of greenhouse gas emissions from entering the environment, the equivalent of removing 23,000 cars from the roads of Canada, the United States, the UK and New Zealand for 1 year.

Turning now to Slide 5. I'll quickly touch on some of the other highlights from the quarter. While we continue to feel the impact of COVID-19 pandemic, we did see numerous encouraging signs of market recovery with growth in our active procurements and in our backlog. We also saw unprecedented government funding announcements in the quarter. The combination of recovery from COVID-19 and a strong funding environment will propel NFI's profitable growth as we support agencies, operators who are building back better from the pandemic.

Our company-wide transformative initiative, NFI Forward, continues to meet our targets. NFI Forward is designed to make us a simpler, leaner company with fewer business units and a reduced footprint. Q1 2021 results included $11.6 million in adjusted EBITDA savings and an additional $750,000 in annualized free cash flow generation from NFI Forward. During the quarter, NFI Forward executed the combination of Alexander Dennis' North American parts business into NFI Parts network, eliminating redundant inventories, parts stocking locations and additional facility investments.

As part of our focus on deleveraging and strengthening our balance sheet, on March 1, we completed a CAD$250 million bought deal equity offering. The proceeds raised were immediately used for debt repayment, and the liquidity and flexibility gained from the equity offering allows us now to pursue operational and strategic goals, such as investments in our zero-emission products and electric propulsion technology, investments in NFI Forward, and other potential growth opportunities.

Environmental, social, and governance matters are critical to NFI's operations and they drive our decision-making. As mentioned, we continue to see our products deliver emission reductions around the world and drive socioeconomic change. Internally, we have placed increased focus on diversity and inclusion in our leadership and our workforce. We joined the 50-30 Challenge, and through continued advancement of our community benefits framework agreements, we are seeing great progress. The quarter also saw us issue our human rights statement and deliver our management information circular, which will be voted on today at our Annual General Meeting.

We reaffirm our full year 2021 guidance for revenue of USD$2.8 billion to USD$2.9 billion and adjusted EBITDA of USD$220 million to USD$240 million.

Turning now to Slide 6. Our backlog was up by 82 equivalent units in the quarter, showing signs that the market is now recovering from the pandemic. This was the first increase in the backlog following five consecutive quarters of decline. Based on activity we've seen so far and discussions with our customers around the world, we anticipate that we'll see increased order activity in 2021 as previously delayed orders are released and the benefits of government funding announcements start to hit the market.

A major accomplishment subsequent to the quarter end was the execution of a 198 EU option award from BVG, the main transit agency in Berlin, Germany. The contract is Alexander Dennis' first major entry into Continental Europe and presents an excellent growth opportunity for NFI.

Faced with a difficult comparative 2020 Q1, deliveries were down with all three of our production segments. This was a result of the first quarter of 2020 having nearly three months of pre-COVID-19 activity. We continue to run at lower production rates during Q1 2020 as order delays clearly had impacted our operations.

I'll now ask Pipasu Soni to take us through the detailed financial statements for NFI.

Pipasu Soni: Thank you, Paul.

Turning to Slide 7. I'll touch on a few Q1 2021 performance factors and comparisons to 2020 Q1. Total revenues declined by 19%, driven by the lower deliveries from the impacts of the pandemic that Paul discussed. I will note that our aftermarket revenues were essentially flat, a testament to the resiliency and global reach of our parts business.

We saw declines in North American public and private operations, offset by increased Asia Pacific revenues, which were up 316% overall in the quarter. This improvement in Asia Pacific is a good sign for broader market recovery, given Asia Pacific markets were impacted earliest by the pandemic in 2020. In addition, the aftermarket business saw strong purchases of our Clean and Protect™ product lines, which help our customers provide a safer transportation experience through increased focus on sanitization, cleaning and air purification.

Adjusted EBITDA saw a slight year-over-year decline of 2% as we were able to offset lower deliveries through our focus on the NFI Forward initiative to significantly decrease materials, overhead and general and administrative expenses by $11.6 million. We also saw the benefit of government grants from the Canadian emergency wage subsidy and UK furlough programs to retain skilled people.

Free cash flow was up $1.3 million or 2% as we had a lower current taxes, realized cash flow benefits from NFI Forward and positive proceeds from the disposition of capital assets. Liquidity at the end of the quarter was at $319 million, an increase of $172 million from the same period in 2020 and $86 million from year-end 2020. This increase in liquidity was mostly driven by our recent equity raise. In addition to putting capital to use on strategic investments, we remain focused on returning capital to shareholders through continued dividends.

Turning to Slide 8. We saw a significant improvement in net earnings and adjusted net earnings year-over-year, primarily from the benefits of NFI Forward savings and the impact of government people retention programs. Normalizations to adjusted net earnings included $1.2 million in onetime nonrecurring restructuring charges and COVID-19-related costs, plus a $1.1 million unrealized foreign exchange loss and a $3.5 million unrealized gain on our interest rate swaps.

Turning to Slide 9. We provide an update on NFI Forward and the expected future benefits. The anticipated cost savings from NFI Forward will impact both direct and SG&A costs. In aggregate, NFI Forward is targeted to deliver an 8% to 10% reduction to both manufacturing overhead and SG&A based on the 2019 run rate. Since inception in 2020, NFI Forward has generated $28.6 million in adjusted EBITDA savings and an additional $1.75 million in free cash flow savings. Note that the additional free cash flow benefits are on top of the expected cash flow that will be generated from the adjusted EBITDA savings.

We remain on target with our original plans and anticipate that we'll reach a run rate of at least $67 million in annual adjusted EBITDA savings by 2023, plus an additional $10 million in annual free cash flow savings. These cost reductions will generate significant leverage as markets recover will grow revenues on a lower fixed cost base would drop through to adjusted EBITDA.

On Slide 10, we provide a summary of our 2021 guidance, which we have reaffirmed for revenue, adjusted EBITDA and cash capital expenditures. Today, we're providing an update on our adjusted effective tax rate. I also wanted to add a comment on seasonality. We anticipate year-over-year revenue and adjusted EBITDA growth in the second and fourth quarter, while the third quarter will be flat to slightly down. A reminder for listeners that in 2021, Q2 and Q3 will be 13-week periods, while Q4 will be a 14-week period for a total fiscal year of 53 weeks.

Turning to Slide 11. I'll explain some of the dynamics we're seeing with our tax exposure as our financial results recover from the pandemic. Our North American tax structure includes minimum tax components that are more fixed in nature, plus variable components based on profitability and the impact of nonrecurring discrete or one-time items. We normalized for the nonrecurring discrete or onetime items to calculate our annual adjusted effective tax rate. The current tax structure does cause us to have fixed components in both BEAT- and FTC-related taxes. BEAT, which is the U.S. Base Erosion and Anti-Abuse Tax) and FTC generate significant impacts to our tax rate based on our pretax earnings versus other Canadian companies. We are investigating options to exit this structure.

Based on our 2021 guidance, management expects NFI's annual minimum fixed tax expense will be between $18 million to $22 million, while its variable taxes will be based on a range of 21% to 23% of adjusted pretax earnings. These ranges are based on current tax legislation, and they did not contemplate the impact of potential future tax changes being considered by governments in the UK, the U.S. and Canada.

Finally, I'll comment that NFI is not immune from the impact COVID-19 is having on global supply chains. Delays in supply production, global shipping and freight challenges and supply and demand imbalances for many parts and components, including a worldwide shortfall of semiconductor chips, have all created supply chain challenges. NFI does not source semiconductor directly, rather our chip requirements is for parts and components that we acquire from suppliers.

Bus and coach demand is much lower than automotive and truck OEMs. And as a result, the shortfalls have not had a material impact on our production, but a lack of consistent supply in parts and components could cause adverse impacts to NFI's remaining 2021 production schedule and parts sales.

I'll now turn the call back over to Paul to discuss the factors driving our 2021 guidance and longer-term outlook.

Paul Soubry: Thanks, Pipasu.

Turning to Slide 12. The first quarter of 2021 was a period that launched unprecedented government support for public transit in Canada, in the U.S. and the United Kingdom. In Canada, the government launched the largest public transit investment program in Canadian history that will see $14.9 billion invested in public transit, with $2.75 billion dedicated for zero-emission procurements. The program includes $5.9 billion in dedicated project starts in 2021 and ongoing permanent funding of $3 billion per year beginning in 2026 and 2027. We're very excited about the development as based on our U.S. experience, permanent and predictable public transit funding gives transit agencies much better visibility so that they can plan current and future multiyear procurements.

In the United States, the proposed $2.3 trillion American Jobs Plan includes an eight-year program with $85 billion for public transit, $174 billion to win the EV market and a commitment to replace 50,000 diesel transit vehicles with electric vehicles. The U.S. government continues to work on a five-year INVEST in America Act, which is the proposed replacement for the current FAST Act, the Federal Act by which transit vehicles are funded in the United States.

The U.S. government's Coronavirus Economic Relief for Transportation Services or CERTS program, was created to support transportation service providers affected by the COVID-19 pandemic. For the first time, this program now includes up to $2 billion in grants for motor coach operators. This is an important stimulus for many of our private motor coach customers who saw significant declines in revenue from the pandemic and who are now starting to resume operations as travel, sporting activities and conventions return.

In the UK, the government continues to unveil details of its national bus strategy, and we will see more than 4,000 zero-emission vehicles put into service in the future. During the quarter, the Scottish government launched an Ultra-Low Emission Bus Scheme or SULEBS that provides funding for the purchase of electric vehicles. ADL has already received orders for 172 electric buses from operators using this program.

In addition to these major funding announcements, on Earth Day 2021, each of Canada, the U.S. and the UK announced new major greenhouse gas emission reduction targets for 2030 and 2035. The combination of reduction targets and strong, stable funding bodes well for NFI's near- and long-term success as we leverage our leadership position in core markets and our growing operations in Europe, Asia Pacific to drive profitable growth and free cash flow generation.

Although the proposed legislation announcements are encouraging for the future of public transit, we do not yet have all the details of when the proposals and funds will materialize and the expected timing impact on orders and financial performance. NFI will continue to monitor and provide updates as appropriate through its quarterly and regular disclosures.

On Slide 13, we provide an update on the North American bid universe. As mentioned earlier, an encouraging sign is the 14% improvement in first quarter active bids as compared to the fourth quarter of 2020. A reminder that active bids are procurements where we have submitted a proposal and that are already in progress or submitting a proposal that has been released, meaning they have most significant near-term impact on awards and operations.

The forecasted five-year North American industry procurement developed through detailed discussions with transit agencies was down slightly about 8% from the quarter of 2020. This decrease is primarily a result of the increase in active bids combined with the transit agencies revisiting their capital plans as they evaluate the impact of COVID-19 and they look to the new government funding announcements and adapt that to their zero-emission vehicle strategies. As customers evaluate their electric vehicle transition plans, some of those procurements for traditional propulsion have slowed in the interim.

We anticipate that the forecasted five-year industry procurement will increase in 2021 as transit agencies and operators learn more about and are able to access the multibillion-dollar government funding programs. As of 2021 and the end of 2021 Q1, 6,424 units or 27.5% of our total bid universe is zero emission, highlighting the ongoing evolution to zero-emission buses and coaches.

I'll also note that in addition to the traditional request proposals and the procurements, we continue to see an increased usage of purchasing schedules, which includes state and national contracts and cooperative agency purchasing agreements. These schedules allow multiple operators within the prescribed region or defined list to purchase buses, typically in an expedited basis. NFI is currently named on over 20 of these purchasing schedules either directly or through our ARBOC dealers. We've received more than 600 vehicle awards from these schedules since 2018, which highlights their growing use by North American transit agencies as an important procurement tool.

Please note that these schedules are not recorded in backlog as they do not have defined quantities for NFI or any other OEM. Once a customer makes a purchase under one of these agreements, the purchase of the unit is immediately recorded as a firm order.

Turning to Slide 14. NFI's projected trajectory over the coming years through 2025 targets is shown. We are well positioned for the near and long term with expectations for growth getting to \$3.9 billion to \$4.1 billion in revenue and \$400 million to \$450 million in adjusted EBITDA by 2025.

Our performance will be driven by, first, our focus on bus and motor coaches. We have strong public and private customer base with long-standing relationships. In addition, we will continue to grow new markets through Alexander Dennis and ARBOC.

Second, we have one of the largest aftermarket bus and coach parts businesses in the world, supporting our 105,000 vehicles in service and delivering recurrent revenue parts stream. This segment of the business will help underpin our 2025 targets.

Third, we have the largest zero-emission bus capacity in North America and the UK with proven track record in delivering electric vehicles, and we will lead the market's transition to a zero-emission future, with expectations that 35% to 40% of our 2025 production will be higher priced and higher margin zero-emission buses, more than tripling what we had in 2020.

Fourth, NFI Forward has and will create volume leverage as we deliver high revenue on a lower fixed cost base. This is evidenced by our targets, including an expected revenue CAGR of more than 8% with our adjusted EBITDA CAGR targeted at more than 16%.

And finally, we will continue to invest in our business and return capital to shareholders. We are pleased with our 2021 Q1 and confident in our business recovery plan and our market outlook.

I'll now turn it back to Stephen to summarize today's discussion. And then following that, we'll open it up for analysts' questions.

Stephen King: Thanks, Paul.

Turning now to Slide 15. I'll recap this morning's call. Q1 2021 was a solid quarter with signs of significant improvement in active procurement, and we have the view that the market is on the path to recovery from the COVID-19 pandemic. We continue to see unprecedented government support for transit. This will help drive order activity and growth, with a strong focus on a reduction in emissions. It's not a matter of if the future is electric, it is a matter of when. NFI is ready today for the transportation of tomorrow.

Although we anticipate 2021 deliveries will remain lower than pre-COVID-19 levels, we are positioned for market recovery and have already seen strong improvements from NFI Forward to drive volume leverage. Following the first quarter equity raise, we have a much stronger balance sheet. Combined with our cash flow generation, we now have the flexibility to evaluate strategic investments to grow our zero-emission, battery-electric and hydrogen fuel cell business.

We continue to innovate and disrupt ourselves and the market, and we are excited about the future of NFI. We've had numerous new product launches this quarter, including new battery- and fuel cell-electric models, North America's first Level 4 automated transit bus and Clean and Protect parts products and solutions to keep riders safe. We are leading the ***ZE***volution to a zero-emission future with strong 2021 guidance and 2025 targets that would see us drive top line growth and even better margin performance.

Before opening the call to analyst questions, we wanted to recognize our very own Jennifer McNeill, Vice President of Public Sector Sales and Marketing for New Flyer and MCI. Jennifer was named 1 of 26 climate champions across Canada. She was recognized alongside others during the virtual ceremony marking six months to COP, the 2021 United Nations Climate Change Conference of the Parties and highlighting global efforts to tackle climate change. Jennifer has illustrated ingenuity in leading our industry-leading, zero-emission future, and she's been a driving force behind NFI's technology road map and strategic growth. Congratulations, Jennifer.

We'll now open the call for Q&A. Hilda, please provide instructions to our callers.

QUESTIONS AND ANSWERS

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

Chris Murray: Congratulations on the recent quarter. I guess the first question I've got is more going back to your comment about the fact that you're starting to see order activity pick up. And you noted the backlog, it -- actually, you had some increase in the backlog. Can you talk a little bit about expectations for order intake over the next couple of quarters? And is there anything that you're seeing in that order intake that could actually drive you above your guidance for 2021?

Paul Soubry: Chris, good question. Thanks for that. So we -- in every one of our business, the order intake, the number of sold slots, the length of the contract, the number of units per contract continues to evolve and change. And we know that the number of units per contract in 2021 is less than it was in 2019 or 2015 for that matter. So that phenomena continues to happen.

As we work through the year, for the most part, we work to almost -- somewhere between 20- and 30-week kind of preproduction schedules, meaning we need -- we get an order, we go through the confirmed -- the design and specification of the vehicle to the customer then we do the nonrecurring engineering and then supply chain building -- sourcing and building so that we can build the bus on time. So the ability to exceed our performance and our guidance for this year is probably less than our ability, just given that time frame, our ability to manage that complexity.

The other dynamic that Pipasu talked about today is like every other OEM in the world, we're all dealing with dynamics of chips and the impact it has on our supply chain. We're still in the middle of the pandemic as much as we were seeing some areas of positive signs. We still have plants and suppliers that have been shut down as a result of COVID and then start back up and so forth.

So we reiterated our guidance of $220 million to $240 million on EBITDA. We know our schedules. We know where we have sold slots and where we have a little bit of uncertainty across all of our facilities. Having said that, the actual -- the number of discrete RFPs that are hitting the street is up. That's positive, which has translated into that increase in the bid universe. And of course, now starting to see the recovery of the backlog, which is a really positive sign because as we hit COVID, it really just started to burn down and everybody kind of had pens down.

So I would think by the time we get to the end of the second quarter, into the third quarter, we'll have really good visibility of all the production slots for the rest of this year. And again, hoping at that point in time, we're confident we'll be able to reiterate our guidance at that point.

Chris Murray: Okay. Fair enough. And then just kind of moving on, another quick question for you. I think I was a bit surprised that the -- frankly, the strength of the shipments in motor coaches. Is there any signs that with the U.S. appearing to be getting better that, that's going to be changing? Or was Q1 more of just a flushing of existing inventory? Just any color there would be helpful.

Paul Soubry: You've watched that market for a long time. And as of all of our markets, it's the one that not only slowed down as a result of the pandemic, it stopped, which then led us to -- you'll remember last year to a decision to relieve ourselves, if you will, or liquidate the entire preowned coach pool, which continues, from our perspective, to absolutely be the right decision at the right time.

Surprisingly -- and again, we're seeing it in opening up with some of the Americas. The United Motor Coach Association, which has an annual conference that was canceled last year, they actually proceeded with their in-person conference about 10 days ago or two weeks ago or so forth. The attendance was reasonable, given that it was in-person. The discussion and temperament and interest of the operators, who are now starting to move again and starting to pull out in terms of their vehicles, is positive. We did sell some of the units. We have continued to be very stingy on the trade-ins and very smart around the valuation of them. We still have the private motor coach production capacity idled. And as you know, we still have completed units or what we call fast tracks, SPAC vehicles that have been built and we'll continue to burn those down.

But I would say, my outlook or gut feeling about the pace of recovery of motor coach and the pace of North America kind of opening up is higher today than it was three or four months ago. That hasn't yet really translated into a lot of buys yet. And of course, the biggest factor there is, does an operator have the cash flow to be able to make the commitment? And what did they do with their own fleet? And then can they get financing for the purchase of a new vehicle or a preowned coach vehicle?

The other positive, and I think it reflects in our first quarter results, is that NFI Parts actually had a pretty good quarter on the private as well as the public side, which kind of sends the signal that these guys are getting ready to start moving in a little bit more frequency at this point in time. Again, I think another quarter from now, we'll be a little bit smarter on the pace of vaccination, the pace of opening up of the U.S. and maybe Canada to some extent and be able to give a little bit more color. But I'm more encouraged today than I was three months ago, for example.

Chris Murray: Okay. Great. Just one quick question for me. Just back to Steve's comment about looking at strategic options around electric bus. Is that more focused around things like supply chain? Or is that something where -- I know you've got the relationship with BYD internationally, but your competitor inside North America -- but they've got some other, call it, structural challenges with some of the regulations in the U.S. Is that kind of something that we should be thinking about? Or I mean any color just on that comment would be helpful.

Paul Soubry: Well, if you -- it's a really good question. And of course, that's the essence or the importance of our business right now is that transitioning. And not to beat a dead horse, but we continue to see it as an evolution. It's not going to be a light switch. Therein lies both the -- well, the strength of our business. If zero emission goes faster, we build them on the same production lines, we can go faster. If zero emission takes longer to transition, we build the conventional vehicles. And so we have profit opportunity and performance opportunity regardless of the pace of change in that market.

We're really pleased with the product portfolio. And if you've seen our announcements, I'm sure you've looked at it, Chris, over the last, let's call it, six months, right? We brought out the next generation of the Xcelsior transit bus. We, just Tuesday, launched officially launched a fully electric motor coach. The guys in the UK have a really progressive partnership with BYD and electric vehicles, but they also announced the creation of their hydrogen double decker. We launched the electric charge in that space. So we're going to continue to electrify our portfolio, pleased at the progress. Really pleased at the performance that we're seeing on reports from, pick one, Seattle or King County or Toronto at how we did relative to competitors.

What Steve was referring to is that we just can't keep our heads in the ground. And so what we do in terms of supply chain, where we participate on -- we manufacture our own batteries with modules that come from another provider that -- the ability to be a smart buyer of both cells and battery packs and battery management system and those things, to be able to be really agile as that changes is really critical to us. And then the other thing is we're getting pretty good, if you will, at managing that element of our business. And so we're not going to keep just stayed or focused on where we are. We're going to continue to look for diversification and growth as we grow our business.

Make no mistake, 2021 is better than 2020, but we're still in the middle of a pandemic. And there's lots of water that's got to go under the bridge before we're in a normal marketplace.

Operator: Our next question comes from Nauman Satti from Laurentian Bank.

Nauman Satti: So my first question is towards the active bids. I know that it's up in the U.S. market. But if you could just provide some color on the UK market. I know you don't have an active bid universe there, but are your sales team taking more meetings than what they used to take? Or what's the environment like in that market?

Paul Soubry: It's a really good insight, Nauman, because, as you know, the UK market took up kind of a hit similar to the motor coach where private operators, pandemic hits, they're operating, cash flows are dramatically down and buying an order activity or fleet planning kind of was idled.

A couple of things to point to. First, pre-pandemic, the UK's national bus strategy and plan for zero emission was kind of defined. Post-pandemic now, we're in the middle of it, the British government has actually started moving forward with actually deployment of their national bus strategy. The Scottish government has moved very quickly with the SULEBS money, which is tangible dollars right now. And so our sales teams in the UK have actually been fairly positive or fairly busy at going out and trying to work with these customers because they kind of idled their purchase activity for almost one year to 1.5 years as we managed our way through the pandemic.

So while we don't have the same kind of bid universe because they're commercially negotiated, they're not all publicly registered RFPs, we are really encouraged by the UK and the pace at which that market will recover. The fact that there's government money behind it is truly helpful to allow those private operators to start moving out. And the health of all those operators, as you look in their public filings, whether it's FirstGroup or Stagecoach or Arrival or Go-Ahead, are starting to see positive recovery not only in ridership, but in their performance financially. So short answer is really encouraged by the progress we're seeing.

Nauman Satti: Okay. No, that's great to know. And just on the supply side challenges that you have, I'm just wondering that in terms of timings and delays, that's one thing. But are you seeing any cost pressures as well? Because we have seen in some commodities like steel prices have gone up. Are they impacting you on the cost side in any way? Or that's still the same?

Paul Soubry: It's a good question. So first, just on timing and delivery. Of course, every business that works internationally or that buys either outside of their own country or wherever has logistic challenges, has the whole computer chip challenge and the implications that has supplier X that builds Y for us has shut down for a week because of COVID in their plant and on and on. So we've got all that kind of stuff. So far, that has not materially impacted our business. Sure, we've adjusted production schedules. We've pulled units forward. We've pushed units back. We've level-loaded our factories as best we can, and that will continue. It hasn't materially affected our business, but we're eyes wide, wide open at trying to manage that. Of course, our quantities are nowhere near what you would see in a truck factory or a car factory.

From a cost perspective -- remember how the vast majority of our stuff is costed. We are bidding based on cost of bill of materials. And so the margin on the work that we are building -- bidding today was based on us developing a cost of bill of materials at some point previously at a certain cost point and so forth. Going forward, as we see increases in either commodities, parts that have chips in them, whatever, we are then increasing the cost and then therefore, increasing the sale price on bids going forward. So not to say it won't have an impact on us, but it won't be a material impact at this point in time that we don't envision.

Nauman Satti: Okay. No, that's fair. That's good color. And just maybe a last one from my end. So you have reaffirmed your guidance. I'm just wondering that there's a component of government grants. How are you thinking about that? Let's say, if the grants fall off, is the idea that going forward, the revenue will be enough to absorb all those costs? Or do you think that if the grants are not there, you can take out those costs?

Paul Soubry: Well, effectively, the first part or the first statement you made is the way we're focusing. We -- people could criticize us and say, "Hey, the only reason you exceeded your quarter expectations was because of government furlough schemes or government wage subsidy." Well, that's absolutely true. However, had we not had those, we would have been far deeper at cutting into the cost of our business. And so the good news, I guess, is the Canadian CEWS program or the UK furlough program are doing exactly what they're intended to do, which is keep the infrastructure, keep the team in place. So that's the good news out of this.

We have not forecasted significant government subsidy going forward into our guidance for the full year. So if our volume drops because we can't fill a slot or because we have to adjust because of supply chain, whatever, you have to believe that the government wage subsidy programs will help bridge that gap to some extent. If our volume stays as we currently got -- haven't forecasted and we don't get that subsidy, we still think we'll live in that area of guidance of $220 million to $240 million.

Operator: Our next question comes from Maggie MacDougall from Stifel.

Margaret MacDougall: So I'm wondering, looking at the slide in your deck at all the various government incentives put in place and it seems like there's new ones being out every day in support of zero-emission transportation development and growth, if you're starting to see any of those influence your backlog. So it was noted that 18% of your total backlog is now zero-emission products, and that's up from 6% at the end of last year. Wondering if this is just kind of natural movement or if some of these initiatives have actually started to push that up.

Stephen King: Sure. So I'll start, Maggie, and then get Paul to jump in. So I think the one that we've seen so far initially has been the SULEBS, the Scottish Ultra-Low Emission Bus Scheme. So ADL was able to be named on 172 units in the UK and Scotland from that program. And then on the others, it's -- we're still -- I think everybody is still looking at what these government programs mean and what the funds are going to mean.

I think overall, outside of the recent government announcements, we are starting to see agencies make that migration from -- before they were doing pilot programs or smaller initial electric bus testing programs and now -- so that was kind of 5, 10, 15, 20 units. Now they are starting to move towards kind of more of the 50- to 100-unit type orders.

But that migration is going to continue to take time as bigger cities kind of do those initial orders for larger EVs. And then secondary cities will take more time over multiple years. And I think that's what a lot of this government's grant money and government support money, it's a long-term vision to drive adoption and to drive zero-emission procurements.

So we haven't seen a lot of drive yet in 2021. But I think we expect we'll see increased order activity in the second half of the year and then through 2022 through 2023 and beyond.

Pipasu Soni: Maggie, Paul, just a little bit color to add to Stephen. The reason the Scottish program has grabbed immediate traction is because they're private operators that we're negotiating with. So their ability to take the announcement and convert that to an order is a matter of days, weeks or months. As opposed to North America, where a government announcement then has to trickle into a process of what the actual program looks like. And then the transit agency has to adapt or modify or embed that in their actual fleet replacement plan, then they got to put an RFP on the street. So all this stuff to us is encouraging about the next chapter, meaning really more 2022 and beyond than it is really going to affect 2021 where they're not private operators.

Operator: Our next question comes from Jonathan Lamers from BMO Capital Markets.

Jonathan Lamers: Paul, on the Xcelsior CHARGE NG, you mentioned that New Flyer is assembling its own battery packs. Is New Flyer also assembling the modules? And what other parts of the powertrain is New Flyer doing in-house now?

Paul Soubry: No, that's a good point. So if you went to our, for example, our Anniston, Alabama facility, you would see a dedicated cell set up in the plant where we buy a module. Today, that module comes from XALT Energy, and the battery management system associated with it comes from XALT. We then are taking those individual packs, if you will, and embedding them into a -- we nicknamed it juice box, but effectively a battery container with a certain kilowatts of power, and there are X number of battery containers on the individual buses. So we are doing effectively the assembly or manufacturing of the ultimate pack that goes on the bus and buying the component modules.

As I think we've talked in previous calls and investor discussions, we continue to look at the strategy associated with cell sourcing and ultimately where that comes. We today use pouch cells in both our Equess CHARGEs and our MCIs. And we are clearly evaluating -- back to my point in kind of our initial discussions, our desire at this point, just because the pace of change, the cost reduction, the global manufacturing dynamics, we're not going to be in the cell manufacturing game. In some cases, we may want to be into the cell packaging game, but today, we are not. And we want to be the smartest, agile buyers.

Now with respect to the other stuff, our largest partner, for example, on the New Flyer program from a propulsion standpoint is Siemens. So we will buy the powertrain and electric motors and other things from Siemens to be part of that. So our job is effectively to be the system integrator of all that stuff. Does that help?

Jonathan Lamers: And for the zero-emission transit bus work, are you finding that the customers are more amenable to a standardized bus model? Or do they continue to require highly customized specs like certain seat layouts and component systems?

Paul Soubry: We have not seen any progress towards a standard seat layout, a standard window tint or thickness, the standard camera layout, a standard whatever, and so therein lies that continued challenge of production and engineering and sourcing efficiency. The good news is that's what we're built on. That's what we've been really successful is that high degree of rapid deployment of technology based on the customer specifications into our vehicles and then getting it into service. And then, of course, supporting them through that. And of course, every customer is different.

I can honestly say that we haven't yet seen any progress towards do you like my bus and how many do you want, whether it's in the UK, even in Asia or North America in any way, shape or form. We still see a massive degree of customization. And of course, in today's environment, where the orders are -- have been smaller. The nonrecurring engineering for a 5-bus order is the same amount of time as a nonrecurring engineering for a 50-bus order. Therein lies some of the challenges around flexing the cost base. The other dynamic is that we have a cost base that today supports conventional buses but also a cost base that's supporting zero emission, which is why this NFI Forward initiative was so important to really take a bite out of our overhead in SG&A, and that's been very successful.

Jonathan Lamers: I would think the customization is a real competitive advantage and barrier to entry for New Flyer. And just a quick question on the slide at the end, with the market share gains for Coach and ADL, those were very impressive in 2020. Have any of the competitors left those markets? Like I'm just thinking about your 2025 guidance and what you might be assuming for the shares there.

Paul Soubry: It's a good question. We haven't seen anybody leave. We've seen everybody stumble, us included, if you will. The market share on New Flyer continues, I think, really to be underpinned by the fact that we can sell any kind of propulsion today, and not all of our competitors can do that. Some of them can only provide a battery, but some of them cannot provide whether it's an articulated or a double deck.

In the motor coach space, I think we have softened the blow in our business selfishly or maybe intra looking, but better than any of our competitors. And we -- the fact that we now have New Flyer and MCI together as one operating entity and they're able to take cost out, our ability to kind of manage our way through that to continue to provide the field service support and all that part has been really, really good.

The UK market, we haven't seen anybody leave. We saw one company out there that's owned by Ashok Leyland -- let's call it, maybe stumble a little bit on some of their issues.

We saw one of the other competitors write bus go through a Chapter 11 or an administration process and is recovering, really betting their business to some extent on a hydrogen future where we continue to believe we've got to be propulsion agnostic.

So a long way of saying nobody has left. I think some of them are hurting way more than we are. Again, pleased of the fact that we're a diversified business, that we kind of handle the blows and the punches to some extent, better than anybody else has.

Stephen King: Yes. And I guess, Paul, the only one I know, Van Hool a few years ago had talked about putting a U.S. plant --

Paul Soubry: Yes. And they've stopped that. But they haven't left the market. There's still importing vehicles from Macedonia, which in itself causes some challenges, but nobody's left.

Operator: Our next question comes from Cameron Doerksen from National Bank.

Cameron Doerksen: So a question for Pipasu, just on the, I guess, working capital in Q1. I guess the cash flow investment in working capital was really high, I guess, mainly due to the payables change. Just wondering if there was something unusual there. And if you could maybe update us on your expectations for working capital investment for the full year. I think previously, it was kind of expected there to be a modest, I guess, investment in working capital, but just wondering if anything's changed.

Pipasu Soni: No. I think to your point, Cameron, just a couple of points. As you know how our year ended last year, it was a little bit of a timing thing there with our payables. So we did pay those and take care of those early this year was one. Number 2 is, I think from a full year perspective, we are still expecting to have some of the -- from a full year perspective, we do expect to have some cash tied up with working capital like we've kind of stated in the past, especially within -- especially with our EV moves.

Stephen King: Yes. And I think, Cameron, to just add, in Q1, I know we were carrying some of that inventory that we had on some of the private coaches and retail coaches in the UK that were from order deferrals and stuff from 2020. So some of that would be heightened in Q1 2021.

Cameron Doerksen: Okay. That's good. Second question, just on the double deck order that you have in Berlin, you highlighted that one in your prepared remarks. I guess maybe the -- I guess if you were originally thinking about ultimately assembling that bus with a site in Continental Europe. I guess the plan, maybe correct me if I'm wrong, is to build all those buses on that contract in the UK But I'm just wondering if, ultimately, you may need to have some sort of assembly capability on Continental Europe if you're going to pursue additional contracts there.

Paul Soubry: Yes. Great question, Cam. And here's the way we looked at it. As we were able to successfully acquire ADL in May of 2019, looking at the demand we expected in

2020 for the UK, we thought that our capacity might be a little bit challenged. And so that's why we started looking at a continental build.

The second issue was the uncertainty around Brexit and what it would mean for import or export duties or challenges in terms of moving parts and so on and so forth. Of course, with Brexit behind us and with now a little bit more color at the pace of the UK recovery, what you stated is exactly true. We really think we can continue to build these things cost effectively in the UK and deliver to Berlin.

Longer term, as the UK market gets back to some maybe fuller sense of normal, there is a scenario that could mean a continental build. At this point in time, all we're doing is continuing to assess our options. We've looked at a number of sites. We've talked to a number of partners. And if we needed to pull that trigger, we've got some cards to play.

At this point, we are really focused on the efficiency and profitability of the UK facilities, building both for the UK market as well as Continental Europe market. And that Berlin contract is a big, big deal. The incumbent was a German company. And so for us to lock in, deliver or the ADL team deliver a couple of pilot buses that performed as promised or better and now to be able to confirm that. And there are still a couple of hundred options on that contract. So really encouraging for the team.

Cameron Doerksen: Okay. So you don't -- you would not expect, let say, for future orders in Berlin or other German cities, say, that the contract requirements would require local assembly? It doesn't seem as though that was the case.

Paul Soubry: We have not seen that. Now of course, the protection dynamics around the world on the recovery has changed a lot of different places, and ours included a lot of industries. At this point in time, we don't have a build in Germany or a build in Continental Europe requirement. And quite honestly, haven't seen talk of that at this point at all.

Operator: Our next question comes from Daryl Young from TD Securities.

Daryl Young: First off, just with respect to following up on the Europe discussion. We've seen some big headline numbers around hydrogen investment in Europe. And just wondering if you've seen any shift. And I think you actually mentioned one of your competitors is sort of banking on the hydrogen shift. But if you could just maybe talk about the dynamics there versus full battery-electric and what you're seeing on the ground.

Paul Soubry: Yes. So let's focus a little bit to start up on the UK market. There are some hydrogen buses being sold in the UK today. The most of the EVs or zero-emission buses are batteries. And of course, our strategy today continues to be to work with BYD. And as you know, we announced previously that later this year, we will complete the process by which we're actually going to assemble the chassis on the half BYD, put them our bus bodies and deliver them.

In the evolution of the propulsion system strategy at Alexander Dennis, Paul Davies and the team are building on New Flyer's success of embedding hydrogen fuel cells into a double-deck vehicle. And I believe by the end of the fourth quarter of this year, we'll be in trials on that vehicle. It is an interesting opportunity. This strategy of being propulsion agnostic continues to play well for us, and we continue to believe there is no one-size-fits-all.

In Continental Europe, where today, we are really a niche player, right? We've sold double decks into Switzerland, now into Germany. The ability to provide a diesel going forward to build a clean diesel or a battery-electric vehicle or now the hydrogen fuel cell, I think, is going to be important. We're not going to be selling buses in every city in Europe. We are very much where there's high volume, high density and where double decks makes a whole bunch of sense in there.

At this point in time, we really don't have a single-deck strategy for Europe. The ability to provide hydrogen will play well. And of course, all you got to do is get involved in the debates about whether hydrogen makes sense in the future, whether it's blue or green hydrogen, where they get it from, do they make it themselves and so forth. That has to play out in every municipality and the politics of every country and region. But the ability to provide that, I think, is important for us, and we're going to do it.

Daryl Young: Great. And then just one more. With respect to some of the new players that have entered the market through SPACs or other means, can you just remind us how long the process is to get a Buy America-compliant bus and whether you've seen any new entrants looking to start that process?

Paul Soubry: So just to go back to step one and not to be too simplistic about it, there is no certificate from the government that says you're Buy America. We've heard some people talk about I am Buy America-compliant. Well, quite honestly, every contract, every build has to be Buy America compliant and meet two major criteria. One is the content, the material content has to be a minimum now of 70%. And the second thing is there's a whole bunch of tasks that physically must happen in the United States for it to be Buy America-compliant.

Simple example, we can't put a door on a bus that's built in Canada because that has to be physically done in the United States, there's a whole list of tasks. So that's the ground rules at which we play. That's how we've evolved our business. That's how we've evolved our supply chain over the years. That's how we've moved some of the fabrication capability to our facilities or to suppliers in the United States.

From a start-up story, if you will, or a new story, not to pick on them, but our friends at Proterra, for example, that business has been around for, I think, 14 or 16 years. They have 600 vehicles on the road in that period of time. And of course, their supply chain, their manufacturing, just like everybody else has to evolve over that time. The bigger issue then is to be able to access the federal funds as all of those vehicles actually have to go through the Altoona track testing, which is the sanction tracked by the FTA. And getting through Altoona can be up to a year long before that happens. And it's not like you test one bus, and they're all passed. Every different variant has to be tested to the Altoona standards. So the ability to scale from a new start-up or so forth is not as simple as it may seem on paper.

In terms of start-ups or new guys that have come through SPACs, the only -- we saw Proterra go through -- or in the process of a de-SPACing process, but they're already in the space today. Lion bus, for example, another Canadian company that's in the process of de-SPACing, they don't make the kind of vehicles that we make. So that's not really a competitive dynamic.

The only other one that has come through the SPAC process that really maybe is targeting some of our opportunity is a company called Arrival, which is a UK company that went through a de-SPACing process. I think they're complete now and are talking about delivering a single-deck, low-floor transit bus. There is no announced plans for them of testing that in North America. I know they're going to be testing their single-deck vehicle. I think it was a customer in the fourth quarter of this year.

So again, sorry to ramble a little bit, but does that give a little bit of color of kind of the -- it's not like a guy shows up and says, "Do you like my bus? How many do you want tomorrow?"

Operator: And at this moment, we show no further questions. I would like to turn the call back to Mr. King for final remarks.

Stephen King: Sorry. We do have one webcast question. I'm just going to read that aloud, and then we'll wrap it up. So our webcast question, "How can NFI move quicker to take advantage of the EV momentum in terms of manufacturing ramp-up and profitability?"

Paul Soubry: It's a good question. If you dive deep into our materials in our business, we are already delivering zero-emission vehicles on all of our production facilities, in all of our models. So It's not like we have to create a new product.

The second issue then is if EV adoption goes faster, we don't have to convert our production lines anymore. We have already made the investment to build a diesel, a hybrid, a natural gas, an electric trolley, a fuel cell or electric, all on the same production line. And so we're talking about mix change on the product line as opposed to having to change the product lines. We've already invested in all the charging or hydrogen infrastructure in our facilities to be able to fuel buses or charge buses and so forth. We've already trained all of our sales force and field service teams to be able to support those products in the field.

So kind of the way we've positioned our business is if it goes faster, we're ready. If it goes slower, we're -- that's the business we're in today. We will continue to push and evolve the product introductions as the market changes, as battery technology evolves, electric motors and systems and so forth evolve. But it's not like we have to turn our business to capture the market share going forward, we're already playing that game, in fact, leading it in market share today.

So thanks for that question. I think it came from a gentleman named Phil Simpson. Thank you.

All right. Back to over to you, Steve.

Stephen King: Okay. Thanks, Paul. So thanks, Paul and Pipasu, and everyone for joining us today.

Before we wrap, I just want to remind everyone that we'll be holding our AGM, our Annual General Meeting virtually at 1:00 p.m. Eastern. Details on how to join are posted on our website. And I'll also note that our 2020 Environment, Social and Governance Report or ESG will be released later this month.

Thank you, everyone, for joining us today. We will now terminate the call.

Operator: Thank you. Ladies and gentlemen, this concludes your conference call. You may now disconnect. Thank you.