NFI Group Inc (2021 Q2 Results)

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Corporate Speakers:

- Stephen King; NFI Group Inc.; Group Director of Corporate Development & IR
- Paul Soubry; NFI Group Inc.; President, CEO & Non-Independent Director
- Pipasu Soni; NFI Group Inc.; Executive VP & CFO

Participants:

- Nauman Satti; Laurentian Bank Securities, Inc.; Diversified Analyst
- Kevin Chiang; CIBC Capital Markets; Executive Director of Institutional Equity Research & Analyst
- Cameron Doerksen; National Bank Financial, Inc.; Analyst
- Christopher Murray; ATB Capital Markets Inc.; MD of Institutional Equity Research for Diversified Industries & Senior Analyst
- Maggie MacDougall; Stifel Nicolaus Canada Inc.; Head of Research
- Mark Neville; Scotiabank Global Banking and Markets; Analyst
- Jonathan Lamers; BMO Capital Markets Equity Research; Analyst

PRESENTATION

Operator: Good day, and thank you for standing by. Welcome to the NFI 2021 Second Quarter Financial Results Call. (Operator Instructions)

I would now like to hand the conference over to your first speaker today, Mr. Stephen King. Please go ahead.

Stephen King: Thank you, Henry. Good morning, everyone, and welcome to NFI Group's Second 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. While we will be moving the slides via the webcast link, we will also call out the slide number as we go through the deck for participants on the phone.

Starting with Slide 2, I would like to remind all participants and others that certain information provided on today's call may be forward-looking and based on assumptions and anticipated results that are subject to 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 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 referred to in this presentation. Of note, zero-emission buses, or ZEBs, consist of battery-electric, hydrogen fuel cell-electric and trolley-electric buses. Equivalent units, or EUs, is a term we use for both production levels and delivery statistics. The majority of our vehicles represent 1 equivalent unit, while an articulated 60-foot transit bus takes 2 production slots and therefore, is equal to 2 equivalent units or 2 EUs.

On Slide 4, for those of you new to the NFI story, we are a leading independent global provider of bus and motor coach solutions. Our purpose and mission is simple: We exist to move people. In other words, our products move precious cargo. We are focused on designing, building and delivering exceptional mobility solutions. On this slide, we've also included our stakeholder matrix that drives our strategic decisions and core operating principles that govern our behavior.

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

Paul Soubry: Thanks, Stephen, and good morning, everyone. I'm now turning to Slide 5. In 2021, Q2, we experienced numerous pauses as we executed on our strategic priorities of: A: winning the evolution to the zero-emission mobility; B: lowering our cost structure; C: strengthening our balance sheet; and D: supporting our customers as markets recover and as they transition their fleets.

While there has been significant progress related to vaccine rollouts and easing of government restrictions, COVID-19 is not yet over. The pandemic continues to impact our people and has created notable supply chain challenges, which, in turn, is disrupting our production schedule. It's not an excuse we're hiding behind. It's our reality now. We have and we will manage through it. We anticipate supply chain challenges to be transitory. And like most other manufacturers, we are navigating daily disruptions and working closely with our supplier partners.

On the positive side, we have seen exciting growth in active procurements with bids up almost 50% from 2021 Q1. Our North American public sales team is the busiest that it's ever been. In addition to the growth in procurements, we've also seen broad signs of market recovery and unprecedented levels of government support with multibillion dollars planned in public transit investments to come. Although we view funding as the key driver for procurements, it is also worth noting that transit ridership is more than 80% up from early 2020 levels in some of the U.S. communities.

We continue to lead the evolution to zero-emission, and ZEBs are now 16% of our total backlog. We've been awarded large ZEB awards in the United States, England, Scotland and Ireland, and we recently announced entry into the Australian market via strategic partnership. In addition, we delivered our best performance ever on the U.S. Federal

Transit Administration's Low No Grant Program. Plus, in 2021 to date, we've launched 7 new zero-emission products, and we remain on track for approximately 20% to 25% of our annual deliveries this year to be zero emission.

Our company-wide transformation initiative launched last year, NFI Forward, is on schedule and continues to meet its targets. NFI Forward is designed to make us a simpler, leaner company with fewer business units and a reduced footprint to drive margin improvement as top line revenue grows.

In May, we released our third annual environmental, social and governance report for 2020. The report focused on the 3 main components of NFI's sustainability pledge, a better product, better workplace and a better world. The ESG report also introduced NFI's 4-pillar approach, including vehicles, infrastructure, smart connected technology and workforce development, directly supporting the evolution of zero-emission technology, the need for equitable access for mobility, and people development that will drive more sustainable future.

Once again, we are reaffirming our full year 2021 guidance for revenue of approximately $2.8 billion to $2.9 billion and adjusted EBITDA of approximately $220 million to $240 million. Additional insights will be provided on today's call.

I'll now turn it over to our CFO, Pipasu Soni, to review NFI's second quarter financial results.

Pipasu Soni: Thanks, Paul. Turning to Slide 6, you will see that our backlog decreased slightly due to deliveries in the quarter, expiry of older options that date back to 2016 and timing of new orders. Our backlog remains at a robust 8,168 EUs with 16% being ZEBs. Our year-over-year deliveries were up in all product lines, primarily due to the idling of facilities in 2020 Q2.

Turning to Slide 7. Total revenues increased by 75% year-over-year, largely driven by idling of production facilities in 2020 and from record quarterly aftermarket revenues. Aftermarket performance was driven by Asia-Pacific volumes and significant volume increases in North America, the U.K. and Europe. The continued improvement in Asia-Pacific transit markets is a good sign for broader market recovery, given those markets were impacted earliest by the pandemic.

Adjusted EBITDA was up by $76.1 million from the combined benefit of higher deliveries, NFI Forward savings and the receipt of $18 million in government support largely provided to assist with retention of skilled personnel. Going forward, we expect volume recovery and margin improvement will replace the impact of wage subsidies received.

Free cash flow was up by $58.5 million, a 136% increase over 2020 Q2, a significant factor contributing to this increase was NFI Forward savings of approximately $13 million and additional free cash flow savings of approximately $1 million. Liquidity at the end of the quarter was $389 million, an increase of $70 million from the previous quarter, primarily driven by working capital improvements.

During the quarter, we repaid $46 million of debt for a year-to-date repayment of $161 million. In addition to repaying debt and funding strategic investments, we remain focused on returning capital to shareholders through dividends.

A key priority for 2021 is a focus on working capital. We saw the benefits of this approach as we lowered working capital days by 6 from the previous quarter, generating a $62 million inflow. These improvements have come from better supplier payments, increased usage of purchasing programs and improved collection processes. Going forward, we anticipate continued improvements to working capital metrics, although supply chain challenges, product mix and seasonality may cause some quarterly variance.

Turning to Slide 8, I'll explain some of the dynamics we're seeing with NFI tax exposure. 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 onetime items for which we normalize.

As discussed at our previous financial results call (for 2021 Q1), on an annual basis we expect our minimum fixed tax expense will be $18 million to $22 million, while our variable taxes will be based on a range of 21% to 23% of adjusted pre-tax earnings. During the second quarter, we also saw a tax benefit from currency fluctuations, which lowered our total adjusted ETR. We may continue to see these impacts during the remainder of the year. As foreign exchange rates are very difficult to forecast, we will report the fluctuations in actual results, but we will not provide a forecasting methodology for this component of the tax expense. I'll also note that, during the quarter, we had a $6.1 million tax expense related to the impact of U.K. legislative tax changes that we normalize for our adjusted ETR.

On Slide 9, you'll note that net earnings and adjusted net earnings improved significantly from the same periods in 2020. Both metrics were positively impacted by revenue growth, savings from NFI Forward, support from government wage subsidy and foreign exchange gains. The derivative financial instruments noted on the year-to-date reconciliation of adjusted EPS relates to pretax gains on our interest rate swaps.

Turning to Slide 10, the NFI Forward initiative remains at or above targets. Included here are a list of projects that we've completed in the first year of the program and the projects that we are currently working on to generate further savings. Since inception, NFI Forward has generated $41.5 million in adjusted EBITDA savings and an additional $2.5 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 in our normal operating activities. 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, we'll grow revenues on a lower fixed cost base with expected drop through to adjusted EBITDA.

On Slide 11, we reaffirm our guidance for revenue, adjusted EBITDA and cash capital expenditures. I wanted to add a comment on seasonality. We anticipate that revenue and adjusted EBITDA for the third quarter will be down from the same period in 2020 and similar in profile to 2021 Q2. This is mostly driven by the impact of supply chain challenges and impacts on production schedule due to timing of customer orders.

Fourth quarter revenue and adjusted EBITDA are expected to be higher than the comparative period in 2020. A reminder for our listeners that in 2021, Q3 will be a 13-week period, while Q4 will be a 14-week period for a total fiscal year of 53 weeks.

I would like to now turn things back over to Paul to discuss the factors driving our longer-term outlook.

Paul Soubry: Thanks, Pipasu. I'm now on Slide 12. On this slide, we summarize the unprecedented government support for public transit in Canada, The U.S., the U.K. and New Zealand. A significant amount of this funding is focused on zero-emission buses and infrastructure solutions, where NFI has leadership positions. These announcements are very encouraging, but they are complex and they're still going through the approval, negotiation and employment phase. As such, we do not yet have all the details on when these proposals and funds will actually materialize into financial results and buying and delivering of buses.

Turning to Slide 13. What we attempted to do here was to present our view of the timing of market recovery as it relates to public and private transit and motor coach markets, essentially a phasing of the recovery from the pandemic. As mentioned, the North American public bid activity is increasing, and we anticipate that this trend will continue for the foreseeable future, driven by unprecedented levels of government support. We expect to start seeing an uptick in project awards in the latter part of 2021 and into 2022, and we expect production to significantly increase in the second half of 2022.

North American private coach markets are anticipated to reach 50% of their pre-COVID levels in 2022. Recovery here will be driven by travel and leisure, sports teams, universities, employee shuttles and colleges. We've already started to see a shift in optimism from private coach motor coach operators. This market will take longest to recover from the pandemic.

In Europe, the U.K. and Scotland, government supported customer demand is driving strong ZEB adoption and overall order activity. We expect to see these markets continue to improve throughout this year into 2022 and beyond. Asia Pacific is currently experiencing higher aftermarket volumes with new vehicle order activity expected to pick up again as the market enters its next purchasing cycle in 2023. Overall, our view is that the markets will recover in 2022, but it will likely be 2023 before we see a return to pre-pandemic demand, production and delivery levels.

On Slide 14, we provide the latest update on the North American public customer bid universe. As mentioned earlier, active bids where we have submitted or in the process of submitting a proposal meaning they've had the most significant near-term impact on our operations, increased by 48% from 2021 Q1. The forecasted 5-year North American industry procurements developed through detailed discussions with transit agencies and from their published fleet replacement plans is down slightly from the first quarter, but this is primarily driven by the shift to increased active bids with agencies revisiting their capital plans as they now gain a better understanding of the new government funding programs available to them.

At the end of 2021 Q2, 38% of the total bid universe were zero-emission buses, up from 28% at the end of 2021 Q1, highlighting the ongoing evolution to zero-emission transit. We continue to see increased usage of purchasing schedules, which includes state and national contracts and cooperative agency purchasing agreements. Since 2018, NFI has received more than 600 vehicle awards from these schedules, which highlights their growing importance within North American transit agencies as an effective and efficient bus procurement tool.

I want to remind everyone that these schedules are not recorded in NFI's backlog as they do not have a defined quantity associated with them allocated to NFI or any other OEM at point of award. Once a customer purchases a vehicle using one of these agreements, the purchase is recorded immediately as a firm order.

Turning to Slide 15, it shows our targets through 2025. We're well positioned for the near and long term with expectations for growth with $3.9 billion to $4.1 billion in revenue and $400 million to $400 million in adjusted EBITDA in 2025. Our performance will be driven by our sole focus on buses and motor coaches, where we have deep customer relationships and the ability to deliver highly customized vehicles. In addition, we'll continue to grow in new markets through ADL and ARBOC.

We have a proven track record in delivering zero-emission buses, and we will lead the market's transition to zero-emission future. We expect that 35% to 40% of the 2025 production will be higher priced and higher-margin zero-emission buses more than tripling our 2020 levels. We have the largest zero-emission bus capacity in North America and the U.K. with growing presence in Europe and Asia Pacific.

NFI Forward will create volume leverage as we deliver higher revenue on a lower and more flexible fixed cost base. This is evidenced by our 2025 targets, including an expected revenue CAGR of more than 8%, but an adjusted EBITDA CAGR of more than 16%. We have one of the largest aftermarket bus and coach parts business in the world, supporting over 105,000 of our own vehicles in service and others and delivering a recurrent revenue part stream. We're pleased with our performance, and we're confident in our business recovery and our market outlook.

I'll now turn it back to Stephen to summarize today's discussion. Following that, we'll open the call up for analyst questions. Thank you.

Stephen King: Thanks, Paul. Turning now to Slide 16 for a quick recap. We had a solid second quarter performance in a very challenging environment. Although the market is on the path to recovery, there are ongoing challenges from the pandemic, primarily related to the supply chain. We continue to see unprecedented government support for transit, which will help drive order activity and growth. North American public transit bid activity is at pre-COVID-19 levels, and we expect to see production volumes back to normal in the back half of 2022.

We continue to innovate and disrupt ourselves in the market. We've had numerous new product launches this quarter, and we also announced entry into new EV markets in Australia and Ireland. We reaffirm our full year 2021 guidance despite a challenging global environment. We are focused on achieving our ESG goals through initiatives aimed at reducing our internal footprint while creating equitable access to mobility and workforce development. We are leading this evolution to a zero-emission future with strong 2025 targets that would see us drive top line growth and even better margin performance.

We'll now open the line for analyst questions. Henry, please provide instructions to our callers.

QUESTIONS AND ANSWERS

Operator: (Operator Instructions) Your first question comes from Nauman Satti of Laurentian Bank.

Nauman Satti: So my first question is regarding the manufacturing segment. If I read this correctly, there's a little bit of pressure on the margin side. I'm just wondering if that has to do with the product mix or is there supply chain pressures? If you could just provide some color on that front.

Pipasu Soni: Okay, let me just make sure I understand. So one of the things that you're asking is from a manufacturing segment side of things, you're seeing some margin pressure and from that perspective, you're asking about what's kind of causing that margin pressure?

Nauman Satti: That is correct, yes.

Stephen King: Let me start out and then maybe we can kind of go from there. I think one of the things that we're starting to see more of is, from my perspective is, we're starting to see a couple of things. #1 is we're starting to see more EVs. And with that EV mix dynamic, what's happening is we're getting a little bit more top line revenue. But when we talk about margin percentage pressure, we are getting a little bit less on the margin percentage side. That's the way I'm kind of...

Pipasu Soni: Just to be clear, though. As we get more zero-emission vehicles, the EBITDA margin for zero-emission buses is actually, at this point, better than we're seeing for conventional propulsion. The problem is the sale price of the EV is materially higher, and therefore, by simple math, the margin percent is slightly deteriorated. We're not viewing that as a fundamental dynamic yet in terms of our competitiveness on zero emission. In fact, we're in a really good position there. But just the simple more top line or the higher sales price has quite a significant impact on a margin percent calc.

Paul Soubry: And Nauman, just one quick thing, too. There was some mix for sure in the second quarter. We sold more motor coaches and more vehicles in U.K. and Asia and North American transit. And some of that, yes, is related to just market dynamics and market recovery and a little bit of the issue, too, from the supply chain on some of the idling of facilities and days and stuff like that. So there was a little bit of mix issue as well in the quarter.

Nauman Satti: Okay. Perfect. That's And just a second one, it's more about -- maybe Paul can answer that. There's a good slide on NFI view on market recovery. I'm just wondering: there's a solid bid universe there. What really has to happen in the North American market for that to sort of translate into backlog? Is that the infrastructure bill or is there like something that needs to happen where it actually gets translated or it's just like a normal cycle where it will take a few quarters to translate into backlog?

Paul Soubry: Well, it's a really good question. And as we spend every day watching the news and watching what's going on in terms of the infrastructure build or replacement for the FAST Act and all those other things. So there's kind of a micro and a macro dynamic.

First of all, the transit agencies that, through '18, '19 and '20, were trying pilot projects on zero-emission buses or starting to get their heads around the way they want to go, the charging strategy, the size of the fleet, the pace of adoption, smaller vehicles versus 30 or 45 footers versus and even now double decks and so forth. So there's a macro dynamic of them getting confident in the way they want to proceed on zero-emission and having learned a little bit around the requirements of infrastructure.

At the macro level, there is no question that the Biden Administration's strategy and policies and plans around dealing with congestion in cities, dealing with the zero-emission dynamic and funding the infrastructure has a massive impact on future demand, but stability of demand. And so there's a lot of people that are spending an important amount of time right now trying to understand the timing of that.

And the thing that often we try to get across to investors and analysts and stakeholders is even with an announcement today, for example, from the U.S. government, the Canadian government, it can be 18 to 24 months before that really solidly translate into actual build and delivery activity. So the good news is you've got the general market recovery and economic recovery. You've got confidence from an operator and kind of starting to get head or heads around the way they want to move to zero-emission, the type of vehicles structures. And then you have the macro tailwinds of some pretty serious funding like we have never seen before.

So this is why I think between my comments and Stephen's comments this morning, we kind of continue to see a little bit of noise through 2021, a little bit more solid order and backlog development through 2022. And then what we think will be the recovery what was the previous replacement factors, if not a little bit higher in 2023 and beyond.

Nauman Satti: This is very helpful. And maybe the last one before I head back into the line. You've entered the Australian market with a partnership, I'm just wondering if you could provide some color on the economics of such partnerships? You did 1 in New Zealand and Ireland; some big picture on that.

Paul Soubry: Yes. Great point. So, Australia, a little bit of history. When we were just New Flyer, and Alexander Dennis was on its own and Marco Polo before they had made an investment in New Flyer, there was a company that came for sale in Australia, the market leader. All 3 of us bid on acquiring that business. Marco Polo was the successful player. Alexander Dennis then bought another player in Australia, a smaller business. And it really wasn't a success and so they backed out of that market. But what they did learn was how the market operates, the provincial dynamics or state dynamics in Australia, the local buy requirements and so forth.

What this allows us to do, this partnership with export allows us to actually build chassis kits -- sorry, body kits -- and work with that local partner to do final assembly of our buses on a BYD chassis in Australia for the Australian market. And so it's not a new market to us in terms of understanding the market dynamics, but it's a reentry into a market with a proven kind of strategy, the same thing we do, for example, in New Zealand, work with a local build partner to build it for the local market.

So it's not a home run, but it's another, we think, interesting market for us to try and diversify from our current cost base and diversifying our revenue base.

Operator: Next question comes from Kevin Chiang of CIBC.

Kevin Chiang: Paul, you talked about the bidding activity being elevated here, funding environment is good. I'd be interested in -- if you see any changes in how transit agencies are looking at, I guess, replacing their fleet or building back their fleet post pandemic? Are you seeing considerations around how many people they want to put in a bus, how they're looking at capacity utilization and the type of buses they may want to order moving forward? How do you view that potential demand profile? And maybe what a transit agency would have typically ordered pre-pandemic?

Paul Soubry: Let me start off at kind of a simple statement, Kevin, and then give you a little bit of color. I don't think we're seeing anything different in how they think about the future of creating their fleet and the mix profile of the size of the vehicles. All of them have strategies for on-route service. There are various route structures. Their pace or cadence of buses every X per hour and so forth. They all have their own current facility strategy. Some of them are fairly advanced on adapting their facilities for either larger vehicles or to adopt the charging strategies and so forth.

When COVID started, we saw -- clearly, in some cities -- the bus go to Sunday or holiday service. The frequency changed dramatically. The route structures really didn't change, then as we saw them starting to come back. We, in some cases, we saw as many buses on the road, but limiting the number of people on the bus. And so again, every city, every area was different depending on how many people were riding, how many first responders or how many essential workers had to get on to those vehicles.

But as they now start to get back into load factors starting to increase, ridership going up, the strategy is more around the evolution of the propulsion and their choice of either depot charging only or on-route charging, so less batteries, but charging more frequently or, in some cases, really starting to seriously look at fuel cell-electric vehicles that give them a range benefit.

I'm not so sure it's changing the quantum or the type of bus that they want to buy other than the real focus on the propulsion system. What is changing though is the pace now of maybe their fleet renewal. So, let's say, since 2018 to now, not only the first part of '18, '19, even to '20 was around, “What kind of zero-emission do I want? What's my strategy?” And then from then on here has now been kind of survival and adaptation. They're starting to get their heads around what they really think they want.

And so when you sit back and think, if you and I were running a transit agency in the average city in the U.S., we would have the comfort today that the federal government is dead serious about: A: public transit; B: about transit in every city available to allow congestion reduction; and C: a commitment to environmental responsibility and, therefore, zero-emission. It's actually really encouraging.

And so if we sat here with Chris [Stoddart] and his team and went through the actual bids on the street. We've never had as many active bid opportunities than we have today. In many cases, the quantum of buses per bid is less because they're getting into that recovery phase, but the number of discrete opportunities is at record levels.

Kevin Chiang: That's helpful. Maybe I can look at -- and I appreciate, I think it's Slide 13 here on your views on the market recovery. I found it to be very helpful. Maybe if I look at, your performance in the first half of 2021, a transition year. You delivered just under 2,000 new buses. I know mix played a role, but that's actually not too far from the total you would deliver in the first half of, I guess, a pre-pandemic year, obviously, with much higher earnings attached to that.

It's interesting to see how you think about the recovery in earnings with the recovery in volumes. But do you think by 2023, you're kind of back to pre-pandemic levels on your way to kind of that $400-plus million of EBITDA like 2025? As volumes recover, what are some of the marks we should be thinking about in terms of EBITDA as well?

Paul Soubry: Well, it's a really good question. I'll take you to Slide 15, Kevin, if you don't mind, just to give you kind of our look at it. So previously, we have given the slide, in this case, we actually went back and showed you 2019. And 2019, we only had half of Alexander Dennis in our business. And basically, when you look from 2019 to 2020, and then you look at the start of the trajectory of recovery, we've basically lost 2.5 to 3 years of our lives, if you will, in terms of getting back to pre-pandemic EBITDA performance. And so some of it will have a mix dynamic. Some of it will have the full year benefit of ADL coming in, and some of it will have the reduction in our costs and therefore, the improvement in our performance.

So we kind of think at our -- without giving the details of individual periods past '21, we think that we're -- take our 2019 numbers and kind of insert them somewhere in '23 and so forth, and you'll see us with a very strong trajectory of returning back to what we project to be $400 million to $450 million by 2025.

And a reminder of what we talked about last quarter. We didn't just make up a number based on units. We went back to the volume of each of our markets pre pandemic. We took cost out of our business. We added the conversion to zero emission. We added a little bit of growth based on some of the strategies that Alexander Dennis has and that got us to the $40 million to $450 million. So we've kind of looked at that as a prudent responsible, reasonable conservative approach to where we can get to. The tailwinds that we're seeing are really positive in terms of funding, but it's not tomorrow. It doesn't allow for a bus to be bought tomorrow.

The other dynamic that all you need to do is read the paper today or click on the internet: there is not a manufacturer in the world that doesn't have supply chain challenges. And so in addition to managing customer demand and build slots, schedules and all this stuff, the supply chain dynamics are really causing our inability to really try and speed up. We're in a pretty good place today. We're relatively stable. We've got continued to change our master production schedule every week. That's really why we articulated this year as a transition year. Nobody should expect our business to bounce back. But we've given guidance for '21. As we get closer or past the new year, we'll give '22 guidance. And we think it's about a 2-, 2.5-year downgrade, if you will, relative to where we were in 2019, but we're well on our path back.

Pipasu Soni: Now the one thing -- and just to make sure, Kevin, I'm understanding you, I think you were looking at 2019 and you were not factoring a full year of ADL, correct?

Kevin Chiang: Yes, exactly. Even taking the 2020 pre-pandemic guidance that you had issued, I guess, in early 2020. But yes, I guess the earnings framework is roughly the same.

Stephen King: Yes, I think -- sorry, Kevin, pro forma 2019, we would have did about 6,100 units for a full year of ADR.

Kevin Chiang: That's helpful. And maybe just last one for me here. I know you do operate in a pretty stringent local content requirement environment, but there's obviously a lot of headlines about the Biden Administration's push to move the overall by America percentage to 75%, I believe, it is. And I know you're already operating in a 70% world. But, are you hearing anything of an increase in your local content requirements in the U.S.? And is there anything you think you'd have to do to hit that if that is coming down the pipeline?

Paul Soubry: Just a point of clarification, Kevin. There are 2 different things. Buy America is the provisions inside the FDA for the purchase of rolling stock. That's the world we live in, and it went from 60% to 65% to 70% as you just summarized. Buy American is for construction contracts in the United States that has nothing to do with the purchase of buses. We have heard nothing in any of our investigations or lobbying efforts, the increase in our world past the 70%. So that's the first issue.

The second issue is the local procurement requirements. There is some lobbying by various organizations in the United States to try and get local content dynamics. And we have seen none of that yet make its way into, again, the purchasing of rolling stock. We have, in the past, set up local completion centers or local service centers in Ontario, California or in Washington or a fabrication facility in New York to try and assist with local content. But, at this point, we don't expect to have to change our footprint to accommodate any of that as far as we can tell.

Operator: Your next question comes from Cameron Doerksen of National Bank.

Cameron Doerksen: Just a question on supply chain. I mean, I think we're all familiar with what's going on with the chip shortage and things like that. I guess, maybe 2 questions here. One is what gives you some confidence that we're going to start to see some normalization in that by the end of the year? And I also wonder if you could talk a little bit about cost inflation, anything specifically there that you're seeing that's affecting you on the cost side?

Paul Soubry: Great questions. So just to put in context for all of our listeners, the product that we build is not a standard vehicle. Sure, there are certain parts that are the same in every vehicle. But every single one of them is customized, and we're buying quantum of parts to put on a vehicle based on a certain batch quantity of each customer.

We're in daily communication with every single individual supplier based on each of those batches. We don't buy microprocessors or chips directly. We buy parts that have them embedded in. And so yes, we've had situations where we'll get force majeure letters or we'll get customer supplier notifications of delays and all these other things. But our quantum of what we buy is nowhere near what automotive guys would buy and so forth.

In terms of confidence for the rest of the year, we're working based on our suppliers' ability to supply to us. And so in that daily dialogue around, do you have 15 of those or 50 of these that we have on order, are we going to get them? This is part of the daily gymnastics that we go through of adjusting master production schedules to meet production output.

In many cases, we'll make judgment calls about delaying the line entry of a certain order based on concerns about supply chain, and we'll make game time decisions about known line entry week to clean up WIP or to adjust production schedules, which is why you are seeing us dramatically recover volumes in 2021.

In terms of commodity price increases, most of what we're building today was priced in cost 1 year ago or 1.5 years ago. And yes, there are some commodities that we buy that steel, for example, I think it's $15,000 a bus is raw steel. And so we see shorter-term cost increases. Almost all of our contracts or the vast majority of them have at least on the New Flyer side, have purchase price index elements to those contracts so that go-forward builds, we're able to adjust the price based on the cost inflation. There's some risk in those numbers. There's also some opportunities in numbers where we can kind of beat the inflation number.

Given the size of our quantities, our batches, individual builds, our escalation of cost is managed at the micro level contract by contract to try and to understand the impact on our business. And we think there's no question there is inflation on pretty well everything that we're buying. We think we can manage for the most part, that inflation inside our sale price adjustments as we go forward. And, of course, everything we're bidding today has reflects the current cost and the current price from our supplier in those proposals. So it's not like it's a massive issue for us, but it is no question something we spend amount of time trying to manage so that we can maintain our margins.

Cameron Doerksen: Okay. No, that's very helpful. And second question for me just on the aftermarket. You've had a few quarters in a row here where revenue has been very strong, margins strong. Just wondering if there's maybe you sort of mentioned some retrofit activity in Asia and other things. I'm just wondering the sort of the sustainability of the current revenue run rate and margin run rate in the aftermarket? Is this kind of a new baseline for you?

Paul Soubry: It's a really good question, Cam. And I'm not trying to be elusive on this one, but it's kind of hard to tell. In Asia, there is no question. We have a big contract in Hong Kong and some others where there's a retrofit that's almost like what we would see historically in North America where we have a refurb type program. It's a quantity of vehicles we're managing with the customer a complete retrofit. I'm not sure that side of the Asia Pacific market is sustainable, but it's been a really good contributor through this period of COVID.

In North America, private motor coach and public motor coach, private motor coach and public transit, I think what we're starting to see is as any of those operators have idled their fleets through COVID as they're starting to get back moving, there's kind of catch-up mode to some extent in terms of getting their vehicles ready. Some of the replacement parts, some of it, let's call it, tune up parts or whatever to get the vehicles back into daily operating service.

Whether it's sustainable or not, it's kind of -- it's tied a little bit to the pace at which they recover or replace their fleets, which, as we just said, isn't an overnight issue. It's a 2- or 3-year trend. As far as we can tell for the next couple of quarters, we've got a fairly positive outlook on the aftermarket volume and margin in North America and in the UK for that matter as the vehicles get back on the road.

Operator: Next question comes from Chris Murray of ATB Capital Markets.

Christopher Murray: Not to beat this one to death, but just thinking about the thinking about the supply chain issues, and I guess a couple of pieces to this and maybe even looking out into the rest of the year. I guess I'm trying to understand what kind of risk we should be thinking about for you guys actually hitting your guidance numbers and the type of confidence you have about making the deliveries you've got. We've had some issues before we're getting to Q4 and stuff has to push out of the year just for some timing issues.

And the second piece of this is really how much of this is about external supply versus internal issues, say, with the Kentucky manufacturing group? So, any sort of color you can give us on your confidence level of that these are actually going to be transitory and we shouldn't be too worried about you guys hitting your numbers?

Paul Soubry: Really good questions, Chris. Let's start -- let's take them in reverse. KMG: we dropped the ball in late '18 and into 2019, which caused us a bunch of problems. We told everybody about us rethinking how to manage the facility. We changed the leadership team. We added a bunch of resources and get caught up, and KMG has been profitable now even with those volumes for about 1.5 years. KMG is not our problem anymore. They've been a really, really solid internal supplier. And quite honestly, as you've seen from our NFI Forward documentation, we continue to in-source more strategic parts into that building for that facility. So, we're not worried about the KMG.

The external supply is real and it's every day, and it changes every day. And every product -- every individual order -- has different implications. And so we're doing our best to manage that. If you, again, as I said a minute ago, if you sat every week in Chris' production team meeting, they're making calls about the current cadence of what's on the line, but also the pace at which they'll deploy or line enter new product based on their gut feel of how good the supply chain is going to be. There are also some areas where our customers told us to hold slots for them. They haven't been able to get all the paperwork and the contract in place. And, so, we're adjusting what we're line entering based on customer demand dynamics, as well.

In terms of our external confidence in our supply chain, David White and his team will tell you it's absolute hell today, but it's not that we're not managing our way through it. There are no question problems. And, in some cases, we're spending crazy amounts of money to air freight a part in to meet the production line, and that's part of some of the cost pressure. So, we're building things online and we'll make a conscious decision not to install a widget on in Cell 2, but we'll do it in Cell 4, which has retrofit dynamics or inefficiency dynamics or expedite dynamics and so forth.

Pipasu Soni: Now would you say, Paul, from a guidance perspective, and I think what we would say right now just based on some of the discussions we have in our monthly meetings is we have confidence in the $220 to $240 today.

Paul Soubry: Well, this is what...

Pipasu Soni: Exactly. But it's a very dynamic situation.

Paul Soubry: So, Chris, the fourth quarter is no question our strongest quarter expected this year. We don't have this year the real dynamic where we traditionally sell a whole bunch of MCI motor coaches in December for U.S. customers to accept vehicles to take advantage of accelerated tax. It's largely a transit bus delivery dynamic as well as Alexander Dennis dynamic.

We just reaffirmed our confidence of the $220 to $240, knowing that fourth quarter is going to be our strongest quarter of the year. So, at this point, we're feeling we can continue to deliver. The other dynamic, which is a little bit odd in this situation, if we under deliver on certain volumes, we get an opportunity potentially get a little bit more wage subsidy that helps us retain some of these skills. It's a bit of a circular discussion. As of today, we stand behind our $220 to $240 for this year.

Christopher Murray: Okay. No, that's helpful. And then I think maybe just even to follow on a little bit on Kevin's question about the aftermarket. Look, guys, margins, that's the first time I've seen a percentage margin with a 2 in front of it in a few years. So, part of the question is also the integration of all the different platforms. And so I'm just trying to understand kind of like, yes, you've got some timing things in there, but how much of that is, call it, the NFI Forward plan or just kind of cleaning up and integrating on a common platform that you think is in that margin that might be longer-term structural?

Paul Soubry: Well, there's no question. As I said to can, there's definitely some campaign stuff. And it's not in Hong Kong. Brian Dewsnup and Chris Stoddart will find a customer in North America that's working on a retrofit campaign of, I don't know, driver barriers or upgrading certain things in the vehicles.

Your point on NFI Forward; it wasn't just about manufacturing facility rationalization optimization. We made a conscious decision to reduce the number of stocking locations. And I think it's gone from 22 to 9 or 10 in North America. In addition, we took

Alexander Dennis' North American parts business and our box part business and put into NFI Parts.

So, what Brian Dewsnup has been able to do is to kind of reduce and strengthen the quality of it is the distribution machine and put more parts through that. The recovery of the market has definitely helped the drop through. But Chris' overhead as a percentage of sales is a couple of points down than what it was a few years ago, which reflects exactly that. Let's get really efficient at distributing aftermarket parts.

The other thing that's actually kicking in, and we've been talking about this for a long time, more than any of other competitors, what Brian Dewsnup's team has done at NFI Parts is trying to actually change or expand the way we sell parts. So, there's no question, we get a phone call and we'll sell them to you today. But the ability to put programs in place with customers, min-max levels, consigned inventories, vendor managed inventory programs or even now we're flirting with some of these parts per mile type contracts on scheduled maintenance parts are really starting to help the performance of the business because it's now planning parts delivery as opposed to guessing and quoting and hoping we're winning. So, I think some of that stuff is no question sustainable in that business.

The movement to zero emission on parts is going to have a long-term effect because you'll have less parts being replaced. But that isn't today. That's years to come, and we're planning for that as we speak.

Operator: Your next question comes from Maggie MacDougall of Stifel.

Maggie MacDougall: Following up on the conversation around outlook guidance, et cetera, but leaving most of the commentary, I'm just curious how we should be thinking about work in progress and inventory cadence for the balance of the year? You've got some initiatives to reduce some working capital days. And you've also got, I guess, I'd call it a bit of an unpredictable or lumpy supply chain. So, should we be thinking about the potential for increased work in progress for Q3 falling in Q4, as you enter into that strong quarter or is it just kind of following historical patterns?

Pipasu Soni: Yes. Maybe I'll just start out, and then I'm sure Paul and Stephen can jump in. I'll just talk a little bit about cash flow and then jump into the working capital as well. So, at a very high level, if we start thinking about what we expect to spend on capital this year, we're kind of still looking at that $50 million range, the guidance that we provided.

There's a couple of things here from the inventory side that I'll kind of mention here. So, #1 is our goal at the end of the day is to get back to the normal working capital days, which should be in the low 50s over time. And I think we're kind of that 60 range right now. So, we're kind of dealing with some of that.

There's a couple of things here. Inventory levels for us. We do expect those to be heightened on the private coach and some of the supply chain issues from our perspective. But I guess some of these supply chain issues will kind of give us a little bit of a raise, but we're still trying to get into that sub-60, obviously, before the year-end is up. And we kind of think about that from a 13-point working capital average, which, as you know, that's the internal metric we use, which is a very difficult metric to achieve from a target perspective.

Paul Soubry: Maggie, we've made really good progress on reducing some of the working capital. When we started the year, as you know, as everybody knows, we were worried about the fixed as the finished goods sitting in our motor coach pool, the private sales team in North America as well as the internet sales team in the UK have been able to actually really move some of those finished private motor coaches. So, that's been a positive contributor.

It's not like we warehouse spare parts to build buses. We build, buy parts to put on to a specific bus. And it's not really around the parts; this is more around the pace and cadence of delivery of products through the factory. Given some of the supply chain dynamics, we have seen definitely noise at our ability to finish and deliver a vehicle. But we kind of think we're in the worst of it right now. And as we head through the end of this year and into the first quarter, first half of next year, we'll see even better performance on our working capital side.

Stephen King: The only thing I think I'd add there is probably on the back half of this year, probably a bit of a working capital investment, maybe something in the $20 million to $30 million for the back half of 2021 because of all the factors the guys talked about, if it's inventory levels, more sales of zero-emission buses, some of the supply chain challenges. But, overall for the year, I think it's a positive working capital benefit, but a little bit of an investment in the back half of 2021.

Maggie MacDougall: Great. And then just in terms of how we should monitor the situation, given we don't have the level of detail that you guys have. Should we be thinking about the clearing up of the chip shortage and the chassis shortage as being kind of major markers for an indicator around your supply chain issues abating? Or is it a bit too nuanced to be able to look at a couple of larger parts markets and determine how things are going?

Paul Soubry: Well, it's a great question. And I wish we had the fidelity to understand how the chip shortage affects the sub-suppliers and then our suppliers, then us. And, so, we're not really deep inside that world. We know when we've won a supplier whether they can deliver to schedule and to the quantity that we need. There is no question that, that global dynamic has -- as it gets healthier, there's no question that will help us.

The second issue is the whole freight and logistics dynamics. The whole Suez Canal dynamic, the pushing back of the global movement of freight and so forth, parts, not that we buy a light offshore, but parts being stuck in containers and different things has had an issue on our business. And so as that kind of clears itself as a macro indicator, there is no question that will only help our individual business.

So, I don't know if that helps you. The chassis shortage is directly a result of 2 issues. One, in North America, we buy chassis. And in some cases, the chassis are basically given to us by our dealer who then we build a body on it and sell it back to them. And that it's directly a chassis or a chip supply issue to the Fords and the GMs and so forth that supply those chassis.

The other dynamic is that Alexander Dennis in the UK bodies BYD chassis. The ability for BYD to build a chassis, batteries, frame structure, microprocessors where they're required and then ship that from China to the UK or from Europe to UK are some of the challenges associated with that supply. There's no question, we hope that and expect to see that start to clear up throughout the rest of the year and into next year, which then it goes back to the market demand increasing on our business and the reliability and stability of our own supply chain, which is why we continue to say 2021 is kind of a transition for us.

Had we not had the supply chain dynamics, we'd be probably in a different place in terms of being far more sure or confident of the ramp-up of our business. And then, as I said before, we still have issues where customers are. The ability to plan their fleet replacement, the ability to make sure that they have funding, the uncertainty and yet positive news of the federal government funding are all tailwinds that will help us. But if you walk into the middle of a transit agency today, there are still lots of pressures and dynamics around deployment, recovery of their fleets, strategy around deployment of zero-emission charging things and so forth. So, a little bit of helter-skelter to some extent.

Maggie MacDougall: I really appreciate your responses. Just one final thing for me. I noticed that your Infrastructure Solutions division is starting to sort of pick up some steam. It's pretty small, but I'm really curious how that offering plays into your conversations around the ZEB transition as you discuss planning with these transit agencies around replacement of fleet, et cetera? And if you've noticed any patterns standing out whereby that has actually given you a bit of an advantage versus maybe some of your competitors in that market?

Paul Soubry: Well, I think it's an important observation because the first number of deployments a couple of years ago, we were very frustrated trying to build a bus, delivering the bus to a customer and then the infrastructure side of it or the charging side of it not being ready or appropriate or easily to operate. And so, we got into that business maybe half good luck and half the foresight of trying to think about how to provide more of a solution than just a vehicle.

It has grown year-over-year and continues to grow. We're currently, I think in one of our slides, we had a stat in there about 44 individual initiatives that we're bidding on, where we're selling a vehicle and trying to tag the infrastructure side of it with it.

I think Chris often will give me a stat that says kind of for every 10 buses -- or 10 bus contracts -- maybe 6x or so, we'll actually sell the infrastructure associated with it. And so that's an important part of our business, not only from a customer and a customer confidence and deployment perspective, but it's also now, to some extent, a profit opportunity for us. The growth of the business is something where we're spending a lot more time.

All you got to do is check the news or go on the internet and everybody's talking about mobility-as-a-service or charging-as-a-service, and where the energy is going to come from, and whether they'll bundle the buses with and so forth. That's an area we're spending a lot of time on trying to understand where we migrate from just a vehicle provider to a solution provider and how deep do we get into that. It's been a really good business.

I have to tell you, as well, putting the chargers in and then providing the customer support in terms of troubleshooting their fleet, but also the chargers has allowed us to learn an awful lot about how to make more reliable, more robust buses going forward. It's going to be an area that we're going to continue to focus. Every one of our competitors talks about it, but I think we've got a real leg up where we've actually had many, many situations of deployment and lots of lessons learned, whether it's depot-level charging or on route charging.

Operator: Next question comes from Mark Neville of Scotiabank.

Mark Neville: A follow-up on supply chain issues. I guess a follow-up on Maggie's question, just thinking about the cadence of recovery, you mentioned you're ordering much smaller batches than some of the auto companies. In your opinion, is that a good or a bad thing? I'm just trying to think, do you sort of lead or lag sort of the recovery you might see in auto. I'm just trying to sort of trying to figure out how to handicap the cadence of the recovery?

Paul Soubry: Yes, it's a really good question. I wish I had the answer for you. Some days, we think, hey, we only need 50 of these widgets. And so surely, they can find a way to get 50 and get us our parks then we fields of 150,000 F-150, some we're waiting for a certain number of parts or components to build the bus or to build the truck or finish the So I'm not sure we really know the answer to that.

In many situations, as you know, we don’t choose our supplier. Many of them are spec’d by our customers. So, we're kind of at the will, if you will, of our suppliers' ability to source that stuff. I think, net-net, the smaller quantities that we need are probably allowing us to be a little bit more in getting things here or there. The chip shortage is one piece of it. But we can underestimate there are also a number of suppliers like we had one supplier, and I think it was, I can't remember, doors or windows of some darn thing where they had a COVID breakout. The place was shut down for 2 weeks. Well, wait a minute, we're waiting for windows for our bus or doors to build a bus. What are we going to do? So that stuff is still real. And who knows if we'll have a real fourth wave of COVID.

But in some of the parts of the U.S., for example, we've seen suppliers have real challenges to get us the parts. And it has nothing to do with microprocessors or chip. It's a really uncertain time right now, both the combination of COVID and the supply chain dynamics and the chip supply. I think, net-net, our smaller batch quantities gives us that ability to be a little bit more nimble.

And quite honestly, Chris is really trying to be prudent about what he puts online based on what he knows is scheduled or is coming in, in the competence of supply chain. You'll remember, in 2019, our WIP ballooned because KMG couldn't deliver parts, and we kept hoping and managing and trying to get those parts and we built up disproportionate WIP. Chris is not doing that right now. We're adjusting the input based on what we have known or have high confidence in the supply chain. And I'd rather take a little bit of short-term pain or sort term muted revenue to make sure that we don't balloon our WIP or we don't spend disproportionate cost trying to resolve those problems until that whole thing kind of works its way over the next 1 year or 2.

Stephen King: One of the things, Paul, I'll add real quick, this, Mark, is we are trying to help with the supply chain issues and kind of balancing that out. There's a lot of inventory coming out in that latter half of the year, especially on the MCI side of things. So, I think we'll probably see a little bit of balancing out of that with that and with ADL. To kind of help us there.

Mark Neville: Sure. So, when I'm thinking about the 2021 guidance, how much of that at this point, would be sort of presold? And what the real risk is, again, maybe you don't -- maybe you come at the low end or don't hit the number for the year, but it's really just an issue where it gets pushed in 2022. And, if that's the case, I mean, is there any penalties for late deliveries with the transit authorities or the other customers? Are they sort of working with you through these supply chain issues as well?

Paul Soubry: 95% of what we need to build in the back half of the year is effectively contracted work. There's a few slots we still have that we've either got to secure it for this year or push it out into next year. But we don't have -- we have had and we managed individual contract signings and timings and so forth. Our issue for the back half of the year is more around the timing of what we put online and the confidence in the supply chain as opposed to lost work to somebody else.

So, if Chris delays the deployment of a certain product online in 2021, it's because he doesn't have confidence that you get the paper working time from the customer or that he can get the supply chain to do it efficiently. But it's not really lost work this far into the year.

Pipasu Soni: And I think from your point also, I think, penalty wise, that's immature.

Paul Soubry: Yes, every contract has some element of liquidated damages. In many cases, the vast majority of the cases, we're able to manage that with a customer by promptly advising and working on delivery windows and schedules and, in some cases, a few concessions here or there. We do have LDs, liquidated damages, at times, but it's not a material number in any way, shape or form.

Mark Neville: Great. And, if I could ask just one more question, I guess, longer term: while you mentioned that, as we transition to ZEBs, the aftermarket opportunity may become smaller, but as your Infrastructure Solutions business grows and your installed fleet of charging and all that growth, does that actually become a potential offset or is that an aftermarket opportunity down the road, as well?

Paul Soubry: That's a super insight. And I think that comes directly for what we talked at our Investor Day part of this year. These revenue streams that we're starting to get or starting to look at that we never had historically. And, in the parts business, not just the transactional sales, but all the things Brian and team have done in terms of vendor-managed inventories and now potentially parts-for-mile contracts and those kind of things are going to give us revenue streams that will displace some of that transactional parts nature.

Infrastructure Solutions, again, is a revenue stream we never had before. That now allows us not only the sourcing of it potentially to do some servicing or monitoring or managing of it. In fact, most of Chris Stoddart's field service team today are actually not just helping with the deployment of the infrastructure, but actually troubleshooting and servicing on behalf of the customer. Our trick is going to be to figure out how to convert that from a customer support dynamic into a go-forward revenue stream. But that's exactly what we're trying to do, which is why when people say to us, your parts business is going to go and say, Well, to some extent, that's true over time. There's less moving parts in a zero-emission vehicle.

I will caution to say the vast majority of the propulsion parts today, we don't sell. Allison has their own distribution network. Cummins has their own distribution network. We don't sell a lot of that stuff. We sell some. So, we're going to lose a little bit there. We're going to lose a little bit of brake revenue, for example, because of the efficient use of a zero-emission vehicle. You don't use the brakes as much. But there are other revenue streams that we've got today and that we're pursuing that we think can supplant that for the longer-term outlook.

Operator: Next question comes from Jonathan Lamers of BMO Capital Markets.

Jonathan Lamers: I noticed the finished goods inventory on the balance sheet was down at the end of Q2 from Q1. Has there been any change in the private coach inventory and how confident are you that the private markets will start improving towards that 50% of pre-COVID levels by Q4?

Paul Soubry: Great observation, Jonathan. You'll remember at the beginning of the year, one of our biggest concerns as we finished through last year as we idled the production line of both the private motor coach in North America and the private motor coach in the

UK through the Plaxton brand. And our concern was we would have too many finished goods of new buses or new coaches and used coaches.

The sale of the entire pool of the used coaches has proved to be extremely important and very, very strategic. Today, we're starting to see a little uptake in the purchasing in the U.S. of motor coaches. I'll admit earlier than we thought they would be. And, so, Chris and team has done a really good job of burning down some of that excess finished goods, as has the team in the UK.

To the point where we're actually now really trying to put on the calendar when we'll restart our production lines for commercial coaches in North America. And we're looking at the end of the year is probably the point where we'll be able to do that. At any one point in time, we'll probably have plus or minus 50 new private motor coaches on the shelf, and it will depend on the timing of the year when we sell them.

Chris is actually projecting now to have that -- he's got that down quite materially from what we had originally. And by the end of the year, we may be down to as little as 25 new motor coaches on the shelf, and that's exactly what's burning down the finished goods inventory.

Jonathan Lamers: And there's been quite a few questions on the revenue guidance. I'd just like to follow up to make sure I'm not missing anything. If Q3 is lower than last year then to achieve the low end of the range, the math suggests Q4 revenue would have to be well above 2019 Q4, even after adjusting for the 14th week that we'll have this year. Does that make sense if J Coach production is still down?

Paul Soubry: Well, we're still selling finished goods so that will contribute even though the production is down. There's a volume dynamic, and there's a mix dynamic. And as you know, every time we sell a zero-emission vehicle, whether it's battery or fuel cell electric, it has 1.5x the revenue of a conventional vehicle.

Stephen King: And I think, Jonathan, the only thing I'd add there, when we're talking about being down year-over-year, we're mostly looking at the EBITDA margin. So, on the revenue side, it may be kind of up year-over-year on the top line.

Pipasu Soni: Yes. And I think we're going to be getting a lot more ADL as well, right? So I think there's some dynamics there that we've got to push especially for the end of the year, which obviously, is a little bit of that dynamic with the supply chain. And right now, we feel confident we'll get it. But obviously, we're monitoring that daily.

Jonathan Lamers: Okay. And last question for me. I thought the latest news from the U.S. federal government over the weekend was fairly encouraging with respect to the long-term outlook for funding. At least, based on what's on paper today, the $100 billion plus that's listed on Slide 12 of your presentation, do you believe that would provide for transit volumes to recover to the 6,000 unit range and for the higher prices of zero-emission buses?

Stephen King: Yes. I mean I think we totally think so. One of the best things about the government funding that's coming through is its multiyear funding. So, similar to the FAST Act, 5-year funding program, which gives us a lot of confidence to the transit agencies about their outlook of what's coming and what they can procure and that the funding is going to be available.

And I think, from what we saw in both the Bipartisan Infrastructure Act and in the INVEST in America Act, so the one that's in the House and then the one that's in the Senate, they're both over 5x more funding for zero-emission buses and additional funding for more Low No grants and additional funding more infrastructure. So, across the board, there's definitely been a, I would say, a lot more focus from government on the higher cost of a zero-emission bus versus a traditional propulsion bus.

And that's in the U.S., UK and Canada, too, where we've seen some major announcements from the Canada Infrastructure Bank. $400 million in Ottawa, $450 million in Brampton, again, all reflecting that they fully expect they are going to have to pay more for a zero-emission bus versus a traditional propulsion bus. So, I think our view is, yes, definitely that the funding as proposed would support getting the market back to those pre-pandemic levels.

Operator: (Operator Instructions)

Stephen King: Okay. Henry, are there any other questions?

Operator: No further questions on the phone. Please continue, sir.

Stephen King: Okay. Well, I think we'll wrap it up. Thanks, everyone, for joining us today. Thanks, Pipasu and Paul, as well, and thanks to all the analysts for your questions. Just want to let our listeners know that we are launching a new website with a new Investors Section, should be done within the next couple of weeks in August. And thank everyone for your time today. All the information discussed today can be found on the Investors section of our website. We will now terminate the call. Have a great day.

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