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Corporate Speakers
- Stephen King; NFI Group Inc.; Vice President, Strategy and Investor Relations
- John Sapp; NFI Group Inc.; President and Chief Executive Officer
- Brian Dewsnup; NFI Group Inc.; Chief Financial Officer

Participants
- Chris Murray; ATB Cormark Capital; Analyst
- Ty Collin; CIBC Capital Markets; Analyst
- Cameron Doerksen; National Bank Financial; Analyst
- Mark Neville; Canaccord Genuity; Analyst
- Tim James; TD Cowen; Analyst
- Daryl Young; Stifel; Analyst
- John Gibson; BMO Capital Markets; Analyst

PRESENTATION

Operator: Good morning, and thank you for standing by. Welcome to the NFI 2026 Second Quarter Fiscal Results Conference Call. (Operator Instructions)

Please be advised that today's conference is being recorded.

I would now like to turn the conference over to Stephen King.

Please go ahead.

Stephen King: Thank you, Lisa. Good morning, everyone, and welcome to our Q2 conference call.

Joining me today are John Sapp, President and Chief Executive Officer; and Brian Dewsnup, Chief Financial Officer.

On today's call, we will recap the quarter which included continued operational recovery, strong year-over-year earnings growth, margin expansion, meaningful cash generation and further progress in our deleveraging strategy.

John will provide an overview of business performance, demand, strategic priorities and our outlook including an increase to our 2026 guidance ranges. Brian will walk us through financial results, cash flow, liquidity and capital structure updates.

This call is being recorded, and a replay will be made available shortly.

We will be referring to a presentation that can be found in the Financials and Filings section of the NFI Group website.

As we move through the slides via the webcast link, we will call out the slide number.

On Slide 2, we provide our cautionary or forward-looking statements and note that certain financial measures referenced today are not recognized earnings measures and do not have standardized meanings prescribed by International Financial Reporting Standards, or IFRS.

We advise listeners to view our press releases and other public filings on SEDAR for more details. A reminder that NFI's statements are presented in U.S. dollars, the company's reporting currency, and all amounts referred to are in U.S. dollars unless otherwise noted.

Slide 3 to 5 provide a brief overview of our company. A quick reminder for new listeners is that NFI is a bus and motorcoach manufacturer and total mobility solutions provider.

We offer a wide range of buses and coaches on proven platforms and are North America's largest bus and coach provider.

We hold market-leading positions and offer the industry's strongest aftermarket network.

I will now pass it over to John.

John Sapp: Good morning everyone, and thank you for joining us today.

I'm picking up on Slide 7. The second quarter represented another important step forward for NFI and showcased the strength of our backlog and aftermarket business which delivered a record quarter.

During the quarter, we delivered 1,232 equivalent units, a 14.5% year-over-year increase. Revenue increased 18.6% to approximately $1.03 billion and adjusted EBITDA increased 47% to $104 million.

Also significant to highlight that net earnings were $17.4 million compared to a net loss of $160.8 million in the prior year.

A couple of key themes to what drove our strong second quarter.

First, we saw continued improvement in our unit economics from the conversion of backlog supported by higher overhead absorption as we increased production rates. Another bright spot was our aftermarket business that holds strategic value by supporting customers throughout the full life cycle of their fleet. Aftermarket's offering of parts, training, service, field support remains a key differentiator for NFI.

Operating performance translated into improved liquidity, ending at $520 million and a reduction in leverage to 2.8x. Brian will get into details, but working capital was a big contributor in the quarter as we were able to unwind some inventory carried over from Q1 of '26 and also saw strong receivable collections. This improvement came even as we had some extended receivable balances associated with tariff recovery and that we had cash outflows of $7.2 million associated with the battery recall campaign.

We completed full battery replacements on 37 buses in the quarter, bringing the total up to 49 since the launch of the campaign.

Moving to Slide 8, we highlight the quarterly and LTM deliveries by product lines. Transit bus deliveries increased 22% in the quarter to 911 EUs, primarily driven by higher North American production in sales and somewhat offset by lower U.K. deliveries. On an LTM basis, transit deliveries increased by 4% to 3,099 EUs.

Motor coach deliveries increased 7.6% to 142 EUs, supported by higher public motor coach volumes. On an LTM basis, motor coach deliveries increased 11.1% to 682 EUs, reflecting higher public and private motor coach deliveries over the period.

Medium-duty and low-floor cutaway deliveries were 179 EUs, a decrease of 9.1% compared to the prior year quarter following several quarters of elevated demand and record level activity. The LTM number reflects this outperformance with an increase of 13.6%.

I'll now pass it over to Brian to go through the second quarter results before we get into a detailed look at our outlook.

Brian Dewsnup: Thanks, John.

As John covered some of the key performance metrics, I'll focus on segment details.

Turning to Slide 9. Manufacturing gross margin increased to $98.2 million or 11.5% of revenue compared to $75.2 million or 10.6% last year. The improvement was driven primarily by improved sales mix as we converted a stronger backlog, combined with higher deliveries and better fixed cost absorption.

Gross margin was down slightly from Q1 2026, primarily due to the impacts of high overheads as we unwound work in process inventory. Aftermarket gross margin increased to $55.3 million or 31.4% of revenue compared to 26.4% in the prior year. The improvement reflected sales mix, benefits of higher volume from the FIFA World Cup, pricing and tariff management.

Overall, gross margins of $153.5 million were up 32% from the second quarter of 2025. Margins as a percentage of revenue was 14.9%, an improvement of 150 basis points from last year.

On Slide 10, gross margin performance helped drive a 47% increase in overall adjusted EBITDA. Manufacturing adjusted EBITDA was $70.7 million, and on an LTM basis, the segment is up to $276 million which is a record result. This was driven by the same items that benefited gross margin and the carryforward of some units originally planned for delivery in the first quarter of 2026.

Reflecting the items that supported gross margin improvement, aftermarket adjusted EBITDA increased to $42.3 million, up 38.6%. On an LTM basis, aftermarket adjusted EBITDA was up 4% to $136 million.

On Slide 11, operating cash flow and free cash flow were both positive in the quarter. Net cash generated by operating activities was $159.1 million compared to cash used in operating activities of $69.6 million in Q2 2025. Free cash flow was $20.7 million compared to $15.7 million last year. Cash flow improvement reflected stronger results from operations, lower cash interest payments and favorable working capital movements.

As mentioned, we did get a boost here from the unwind of work-in-process inventory and receivable collections. We do expect that we will have to make investments in working capital in the third quarter as we build up inventory for a seasonably busier fourth quarter.

On Slide 12, we walk through the adjustments to achieve adjusted net earnings with all amounts shown net of taxes. Most significant item to highlight is the restructuring charges taken at Alexander Dennis. This reflects the previously announced charges to Scottish manufacturing operations as we match our capacity and cost structure with current demand.

On Slide 13, we summarize total leverage, liquidity and return on invested capital. Total leverage, which includes all debt instruments, was at 2.81x. The benefits of outperformance in the quarter and working capital improvements did help drive a significant reduction.

As we do expect investment in working capital in the third quarter, we will likely keep leverage around these levels, but we are still very well positioned to achieve our leverage target of 1.5x to 2.5x as we head into 2027.

Liquidity was up approximately $193 million year-over-year, reflecting the strength of our cash position. Return on invested capital continued its strong trajectory ending Q2 at 13.6%, a 130 basis point improvement from the first quarter of 2026, driven by positive cash generation and lower average invested capital.

On Slide 14, I'll just walk through two important financing actions that we completed after quarter end.

First, we amended and extended our first lien facility by one year to July 2030.

Second, we completed a private placement of CAD 350 million senior unsecured notes due July 2033 with an interest rate of 6.625%.

We used the proceeds of the notes to repay the existing CAD 50 million Manitoba loan which carried an interest rate of 7%, and we also made repayments on our first lien facility.

We expect to redraw under the first lien facility in January 2027 to repay outstanding principal amount of the convertible debentures which is currently CAD 338 million.

These events improved our overall debt maturity profile and position us well to address the January 2027 maturity. They also continued our journey toward an unsecured debt structure.

I'll now turn the call back to John to discuss our outlook.

John Sapp: Thanks, Brian. Picking up on Slide 16, we summarize the strategic value drivers that helped drive our first half performance and support our expectations for further growth in the second half.

Operational excellence continues to support margin expansion with stronger supplier performance contributing to labor efficiency gains. Across NFI, our team remains focused on customer centricity. That means delivering quality and reliability, improving delivery and acceptance processes, supporting customers through the full vehicle life cycle and ensuring our service, field support, training and aftermarket capabilities are aligned to customer needs.

These activities are all contributing to profitable growth and sustainable demand.

As Brian mentioned, in July, we took actions to strengthen our balance sheet, and we are well on our way towards our target leverage range. Given our strong first half and expectations for the remainder of the year, we have increased our guidance for 2026.

Our new range sees a tighter band on revenue and adjusted EBITDA increasing to $385 million to $415 million, reflecting growth of 15% to 24% from 2025.

We've also increased our expected cash CapEx range to $55 million to $65 million, reflecting investments we're making in new products and facilities to support future growth and our customer-centric approach.

As we look ahead to the balance of fiscal 2026, we expect year-over-year improvements in our third quarter results, although it is important to note that Q3 is typically a seasonally slower period due to summer vacation shutdowns at our manufacturing facilities and slower customer acceptance activity during the holiday season.

This, combined with our strong second quarter performance, leads to expectations for a modest sequential decline in deliveries and revenue.

The fourth quarter is traditionally our strongest period of the year, driven by higher delivery activity in both private coach and international transit markets, and we expect that to be the case again this year. Just a reminder that in the fourth quarter of 2025, we had heightened activity as some units shifted into that period due to supply disruption which is not a factor as we've seen and expect -- which is not a factor we've seen or expect to see this year given our improved production and delivery linearity.

Slide 17 to 20 provide the latest updates on market conditions, order demand and our backlog.

I won't go through them in detail, but I will mention a few key points.

We continue to see support from public funding environments in the U.S., Canada and the U.K.

In the U.S., the Infrastructure Investment and Job Act matures in September 2026, although funds will continue to be spent well into 2028. Work continues on the next surface transportation funding bill and significant progress has been made through the proposed Build America 250 Act.

While the goal is to finalize prior to the end of the year, there are still numerous steps required prior to full approval. Historically, if the next bill isn't complete as the existing funding bill expires, there will be an extension, although that must also go through a government approval process.

In Canada, funding support remains strong, and our all Canadian build facility has been very busy meeting demands from customers across the country.

In the U.K., overall government support and market demand remains elevated, although foreign competition makes for a more challenging market.

We've taken the right steps to normalize our cost structure and recent government changes are encouraging for the potential to see increased focus on domestic manufacturing through franchising models.

On Slide 18, we highlight that the demand environment remains healthy.

At quarter end, active bids in our North American public bid universe were 6,195 EUs, a 6% increase from the same time last year. And the 5-year forecasted customer demand was 26,000 EUs. These demand indicators provide continued visibility for new orders and future production activity.

On Slide 19, our total backlog was 14,483 EUs with a value of approximately $12.5 billion.

We saw a small decrease in backlog as we increased our second quarter deliveries and had slower quarterly new orders which we feel reflects customer timing rather than changes in the demand environment.

Firm backlog orders were 6,271 EUs and options were 8,212 EUs. This backlog provides multiyear visibility and supports our confidence in continued production and earnings growth. Average prices also remained strong in both transit and motor coach.

Before we close, I want to provide the latest views on the macro tariff environment.

On Slide 21, we have identified the major tariffs that are present and applicable to our industry.

While tariff structures continue to evolve, we've continued to actively engage with customers to discuss pricing impacts and have been negotiating and updating pricing to reflect tariff costs where applicable.

Our view remains that tariff exposure is manageable, supported by our localized manufacturing footprint, contractual structures, pricing actions and aftermarket distribution capabilities.

Our guidance includes the impact of current and known U.S.

and Canadian tariffs including the proposed Section 338 tariffs announced in July, but does not reflect potential future tariff or trade policy changes.

With respect to IEEPA and refunds, this remains a developing situation.

We're actively monitoring it and working with advisers and government partners.

Our intent is to do what is right for customers and to meet any contractual obligations required within respect to refunds. Wrapping up on Slide 22, a few final comments.

First, Q2 was a strong quarter with revenue and adjusted EBITDA growth, positive net earnings and strong cash generation.

Second, manufacturing recovery continues, supported by higher North American production, improved vehicle economics, stronger backlog conversion and better overhead absorption. Third, aftermarket delivered a record quarter and continues to demonstrate the value of NFI's life cycle support model.

First half performance was supported by FIFA World Cup activity and creates a tougher second half comparison.

Fourth, our balance sheet is stronger. Liquidity ended at $520 million, leverage improved materially and the recent financing actions position us well ahead of the January 2027 convertible debenture maturity.

Finally, we increased our 2026 guidance. We now expect revenue of $4 billion to $4.2 billion and adjusted EBITDA of $385 million to $415 million.

With that, I will now open the line for questions.

Operator, please provide instructions to the callers.

QUESTIONS AND ANSWERS

Operator: (Operator Instructions) First question will be coming from the line of Chris Murray of ATB Cormark Capital Market.

Chris Murray: Maybe starting with the guidance and just maybe unpacking this a little bit. So certainly, a very good quarter. Maybe you can comment on whether or not actually it was better than you expected when you originally set your guidance. So just trying to get a couple of pieces of this.

One, in the guidance and how you're thinking about kind of the quality of the margin that will be coming out of manufacturing. But also, if you could maybe make some comments, I just want to make sure that on aftermarket, it feels like this is kind of a onetime event, particularly with that margin impact.

But if you just want to maybe clarify how to think about this on a go forward and how it fits into at least your view on the balance of the year.

John Sapp: Yes. Thanks, Chris. I appreciate the question. The first part of your question there relative to what we anticipated for Q2 and how the quarter played through for us and relative to our overall expectations for the year.

Look, our expectations certainly are high for the year in terms of the guidance there that we've set coming into the year at -- in terms of the range that was there.

And certainly, it was reflective of what we anticipated to do in Q1 which was certainly a resetting of key operations and also ensuring supply chain health as we were going to continue to see volumes ramp up as we came into the second quarter. And that certainly has played through for us.

As you look at the transit volumes, those numbers were very strong, especially on the North America front, we're very pleased with what we've been able to do in terms of generating growth. And so overall, we were very pleased with the execution that we had from an operational standpoint that really supported what we saw in terms of Q2.

An important part of that was also clearing through some of the old seating issues which really put behind us and that also allowed for us to then clear through some additional WIP in the quarter which was certainly a lift. And we may have been able to clear through that WIP a little bit faster in the year than we may have anticipated. So we saw a little bit of lift then in Q2 as a result of that.

Relative to the World Cup, we were very -- in the aftermarket specifics of your question, we were obviously prepared as we came into the year that there could be some lift, but we weren't sure exactly how that would play through in terms of the transit agencies. And the end result was obviously something that was favorable for us in terms of Q2.

I think the -- relative to the full year, -- what will be close watch for us is to see how that plays through because our expectation, of course, is that key transit agencies that had that World Cup impact, we may see some reduction in terms of their needs in the second half as they bought ahead, if you will.

Relative to manufacturing, your question there around what we're seeing in terms of margins, we continue to see improvement in terms of our manufacturing margins.

We see the health of our backlog as that's continued to improve over the years, and we have moved away from some of the very steep inflationary pressures, and we've seen the backlog continue to improve.

But also as the volumes have gone up, obviously that's going to give us some of the benefit that we see relative to absorption, etc.

So overall, I think it's a great quarter. I think relative to the guidance, there's a few things for us to be cautious about here in terms of the second half that we noted relative to the aftermarket piece, I think some of the pull ahead that was noted, I think how quickly we were able to work through some of our extended WIP. And frankly, Q2 is the longest quarter that we have in terms of manufacturing days as well.

So all of those play through. We're pleased with what we're able to do here from a guidance standpoint, and we've got a lot of work to do here yet in the second half.

Chris Murray: That's helpful. My second question, just turning maybe to the balance sheet. Congratulations on getting the new piece of financing in.

It looks like it's a pretty attractive number. I think you actually made the comment that it's actually less expensive than your first lien which is interesting. So as we think about kind of the evolution and next steps, you're kind of within striking distance of, call it, rolling off some weaker quarters to that leverage target.

Can you walk us through how to think about the next steps? I think you talked about the converts. You've got the funding in place now to redeem those at maturity.

But just sort of curious about how you're thinking about the trade-offs around perhaps retiring some of the second lien and if you can retire that in pieces and how capital allocation priorities, what kind of opportunities you see once you get into that kind of, call it, normalized leverage range with adequate liquidity, how to think about that into '27?

John Sapp: Yes. Great question. We're really pleased with our positioning now. We're really happy that we're able to get that deal done and be prepared for Q1 2027 and the repayment of the convertible debentures.

Our focus has been on deleveraging, and we're going to continue that throughout the balance of the year.

As we mentioned in the discussion, we do expect some fluctuations in working capital. And so we'll always try to minimize working capital, but we do expect that we may see some increases in Q3 as we prepare for the Q4 seasonality.

With respect to next year and beyond, our main focus is to get within that 1.5x to 2.5x range. And then once we get into that range, obviously it opens up some options for us. And so we'll address that when we get there.

But our main focus is to generate cash flow in the second half of the year, get some stability within our working capital. And then, of course, we're well positioned to address the converts in early next year.

And then thinking about our high yield, we have some options. We'll see where the market is next summer when we enter into a call period for U.S. high yield, and we'll take appropriate steps when we get there.

It's hard to speculate on what rates will be and how the math works when we get there.

Operator: And our next question is coming from the line of Ty Collin of CIBC.

Ty Collin: Congrats on a strong quarter. Maybe just wanted to return to the guidance and ask the question a little differently.

So I mean just given the updated range, I'm curious how you would sort of frame the high end and the low end and what you would highlight as kind of the biggest risk factors in the second half of the year and maybe where the areas of opportunity might be as well?

John Sapp: Yes. Great question, Ty. Thanks. Yes, absolutely.

So let me talk a bit on the -- relative to the low-end framing. There are still risks, of course, that are out there that we're facing into in the back half of the year. We've done a lot in terms of our operational execution that has allowed for us to derisk that bottom half.

I think the work that we've done within our supplier management group to include rate readiness activities to include our risk assessments of the supply base have us in a very healthy place certainly and gave us confidence in terms of lifting that bottom half.

But supply risk is out there. As these buses come together, the amount of material requirements that we have always poses that potential.

And so that would be one area that would be a caution for us certainly as we head into the second half. Certainly, there is the potential impact of other unforeseen issues that could emerge. But overall, it's really around continued execution within that supply base from an operational standpoint.

We're also very closely watching the coach space to ensure that we see the private orders come through that we are anticipating. And there is, of course, some risk in terms of the total value that we may see from that or a range. And so depending on where those come through, that could have some effect for us, and that is then reflected with the lower end.

But again, we feel obviously confidence building, and that's allowed for us to bring that lower end up.

On the higher end, what I would note is, we've been really pleased. I would probably use some of those same points relative to the work that we've been able to do on our operational execution. It was an outstanding quarter.

We talked about it during the last call the need for us to do some key things to really drive the efficiency within our shops to ensure work was happening in station, that material availability has built. And so as a result, we had a strong quarter that allowed us also to work through some of that and were were able to play through.

And all of those give us confidence in terms of the process shifts that we've made, the support we've applied to our supply chain team. And as that continues to build, then that gives us some confidence to the point where we may, that we see the upper range of that bumping up like we did.

Ty Collin: Okay. Great. That's super helpful color. And then maybe just digging a little deeper on the implied margin specifically.

So if I take the, the midpoint of the revised guidance ranges, it looks like it implies a second half EBITDA margin kind of in the mid-9s versus you were running in the low 10s in the first half of the year and even north of that in the second half of last year.

So is there any kind of structural or seasonal reasons that we should expect margins to step down maybe aftermarket is part of that? Or is that kind of just baking in some conservatism as you just mentioned, from a margin standpoint?

Brian Dewsnup: I think certainly, the aftermarket effect would be mixed in there as aftermarket is typically a higher margin. We also have in Q4, we'll see a greater mix of private coach as well as Alexander Dennis units, and those will come in at a little bit lower margin than North America.

So that mix would affect it as well.

Ty Collin: Okay. Great. And if I could just sneak in one more. John, I'd be curious to -- and I appreciate the comments around the funding picture earlier in the call but I'd be curious to get your sort of just high-level view on what you're seeing out of the Bill 250 bill, how you're viewing that? And also based on your conversations with your customers, how they're sort of thinking about that and responding to it so far?

John Sapp: Yes. No. It's a great question, Ty. It's certainly something that we're highly focused on.

Look, it's obviously a lengthy process. We've had high engagement with industry, industry partners and also with various government folks to continue to learn and to share our thoughts in terms of where things are projected to go.

So those have all been very positive dialogue, and we're frankly very optimistic in terms of where things are relative to the process and for a number of reasons.

One is the overall funding bill, I believe, has very strong bipartisan support. It's going to take time for it to continue to be negotiated through. So we're obviously watching that closely. And depending on whether or not it's able to complete funding before September, whether or not there will need to be some level of extension or a bridge, I think, is certainly a watch item for us.

But I think what gives overall confidence is, again, that bipartisan support overall around the necessity, these fleets are aging. And the agencies are and other industry players, I think, are obviously going to be vocal relative to the need for their recapitalization and the support that they depend on in terms of this federal funding. And I think that is a big piece of why we see overall broad support in terms of the need for continued funding.

We've been pleased with, some of the draft language around the different elements that could be included with it (the new Bill). And so all of that considered, we'll be anxious to see how it continues to play through, heavily engaged certainly to support providing our view of how we can best support what they're trying to get accomplished with the funding bill, and we'll be anxious to see how it plays through here in the second half.

Operator: Our next question is coming from the line of Cameron Doerksen of National Bank.

Cameron Doerksen: Just wanted to maybe follow up on the transit funding question.

Obviously the backlog is down sequentially. Just wondering if maybe some of the uncertainty around the longer-term funding is having an impact on your transit agency customers' willingness to commit to new orders. Just what are you hearing from the transit agencies as far as the funding outlook? Because obviously that would be good to have a longer-term visibility on that from their perspective.

And then we've got some shorter-term funding proposals here which, in some cases, are looking to slash public transit funding. So just thoughts about what the impact has been on the orders activity for you.

John Sapp: Yes. Thanks, Cameron.

Overall, obviously from a -- just touching on the backlog quickly, we feel very high confidence in terms of the backlog overall, sitting at that $12.5 billion level. And really what -- where we're at relative to our firm orders and from a slotting standpoint, the current funding bill itself is going to continue to support deliveries all the way out into the 2028 slots with the current.

So that is -- obviously gives us -- affords us time right, as this is going to continue to play through.

Relative to your questions around agencies and uncertainty, we're not seeing any broad-based pause in customer activity.

As I noted earlier, the fleet age is a critical factor for these agencies as they consider the need to get their fleets recapitalized. And with roughly 40% of the fleet now over the anticipated life for the buses themselves, that is driving the need for continued pursuit of new buses. And so when you couple those two together, we certainly feel confident.

But we have not seen, to answer your question very specifically, a broad-based pause in terms of the customer activity.

Cameron Doerksen: Okay. Got it. That's good to hear. Just second question, I guess, on the U.K. and the ADL. Obviously, there was some restructuring that occurred there. Have we seen, I guess, the positive impact on margins from that in your numbers at this point? And I guess, how are you feeling about the potential changes maybe in government policy there that might improve the competitive positioning?

John Sapp: Yes. Great question, Cameron. Thanks. First off, we've done a lot, as noted here in the first half of the year around really repositioning our Alexander Dennis business from a cost standpoint. And those adjustments are going to continue to play through.

So it's going to take some time for us to see that benefit. Specific to your question, we are certainly seeing some impact, but we'll see more of that impact continue to develop here over the course of the year. Those changes were key for us.

It was really a reset around this competitive environment to ensure that we position Alexander Dennis for being able to deliver successfully at the profit levels that we expect of the business within that competitive environment, as you noted.

And so when you couple that with great product and a terrific service experience for our customers and being able to price and win accordingly, we do expect to see that business really start to - from a profitability standpoint - deliver to the expectations that we have for it. We also have done work with that reset with the ability and the flexibility for us to increase that production and have some agility in terms of some of the decisions and how we've executed in some of that reframing.

So we are -- and as you noted, right, very closely watching what's happening from a political standpoint to see whether or not there could be some policy shifts there that could give us some tailwind.

We haven't built this plan based on that meeting those tailwinds. We built it within the current competitive dynamics. But if we did see some benefit relative to that policy, we've positioned the business to be able to scale back up to the levels needed to be able to address a great opportunity of additional volumes if they were to pursue a path of more localization.

Operator: Our next question is coming from the line of Mark Neville of Canaccord.

Mark Neville: Congrats on the quarter. Maybe just first question, just around the free cash and the working capital. Just there's still a sizable inventory position as usual, and then there's still some WIP or quite a bit of WIP.

I appreciate you'll need to build some inventory in Q3. But I'm just curious sort of structurally and longer term, is there more opportunity to reduce sort of WIP or bring down inventory or are you sort of at the position that you need to be?

Brian Dewsnup: Yes. That's great question.

So that's something that we always take a look at balancing, making sure that we have enough inventory to support our customers, particularly in the aftermarket business. We do believe that there is opportunity and I talked a little bit earlier about continuing to work on cash generation. That's really what I was referring to.

Our inventory balances have grown significantly over the past couple of years, and that's something that we'll look to work down. It is a balance as we need to make sure a lot of private motor coach sales can be very transactional if you have inventory.

So we want to make sure that we have enough inventory to take advantage of those opportunities. But we do see opportunities over half two and beyond to continue to reduce inventory and generate cash through that.

Stephen King: I'd say, too, with the supplier performance getting better, that's hopefully going to be another tailwind -- we don't have to have as much safety stock extra supply. So hopefully, we'll continue to see that benefit the inventory number as well.

Mark Neville: Great. Maybe just to go back on the guidance, sorry to keep asking questions about this.

But if I look at the second half guide, I think the sales -- at the midpoint, sales would be up, I think, 17% or revenues would be up like roughly 17% year-over-year. EBITDA is closer to 4%. Again, I appreciate sort of all the different moving parts around aftermarket and maybe some of the mix issues.

But is there any sort of incremental pressures within the business that we should be thinking about into 2027? Or is it really some of the more of the stuff you talked about?

John Sapp: Yes. Well I think certainly, -- and Mark, thanks for the question. I think it's -- certainly it's quite a few of the things that we had mentioned earlier.

I think it's also worth reemphasizing the point that second half last year, as you talk about those year-over-year comps, it benefited from Q4 which was our largest quarter ever. And frankly, it was a result of a lot that had built up over the course of the year with some of the operational challenges that had occurred.

And so it does create a tougher comp in the second half when you consider that Q4. And I think that's a big contributor.

Certainly, for us, as we consider where we're at relative with the items that I mentioned earlier in terms of the volumes, where we see those volume the increases from where we're at in Q1 into Q2, we expect to see strong volumes, especially in the North America transit space here in the second half.

But there is that tough comp that goes to that Q4 of last year.

Mark Neville: Got it. And if I could just ask one more question. John, you've been in the position or in the CEO role now I guess, six, seven, eight months. It's great to see some of these improvements flowing through.

I'm just sort of curious sort of if you were to categorize sort of where you're at in terms of implementing these changes and just sort of bigger picture sort of how you see things evolving over the next year or two, three, whatever. But just in terms of the changes you're making and your vision for where you want to take things.

John Sapp: Yes, absolutely. Thanks, Mark. Thanks for the question.

It's certainly been a busy first seven months here for myself in terms of coming into the role. The focus certainly for the first half here has really been around just driving our operational execution, delivering terrific product and service excellence, culture and team just in terms of our push towards an overall customer experience being really foundational to what we're trying to drive towards.

And so those are our four strategic pillars that we talk about as a group. The ops piece has been a high focus item, ensuring early on in terms of Q1 that we were doing some of the needed things around our supply base and resetting our operations to really deliver what we anticipated was going to be a very strong Q2 and beyond relative to the volumes. That's taking shape, but we've still got quite a bit of work that we need to go do. And that's going to be a continued focus.

Operational excellence here is going to be an intense focus for us over the coming months and -- I mean frankly, for the near term. We've talked a lot as a group around driving customer experience, ensuring that our customers view our products as being best-in-class in terms of the service, the support, the quality that they see coming out the door. And so that has been an area, of high focus on how we talk about the full life cycle -- the customer experience from the initial delivery to what they see in terms of service and quality.

So that is a high area of emphasis for myself. And we're also now very focused around our strategy as a team. So as we look and we look further out, ensuring that we're taking the actions from a strategic standpoint that are going to be critical for us.

What I will say is our focus within that remains very much around our operations and our execution as being an area of high focus. How do we ensure that we deliver on the volumes that we deliver on the backlog, that we deliver the highest quality product that we can to our customers and that we see as a result of that strong op leverage and incremental margins then flow through as we see those numbers evolve.

So that's been the first half. It's going to continue to be where I focus here going forward, but it's been a great first seven months, and I'm excited about what we have in front of us.

Operator: And the next question is coming from the line of Tim James of TD Cowen.

Tim James: Just a question looking at the guidance change for the year. The indication, and I'm thinking about adjusted EBITDA guidance here, the increase due to improvements in overall gross margins as backlog is converted and the benefits from increased overhead absorption.

Should we interpret that to mean really the improvement in adjusted EBITDA is a function of sort of volume -- greater volume than in the previous guidance? Or are there specific things going on as well within kind of the margin profile, whether it's manufacturing efficiencies and what have you that are driving the higher EBITDA guidance?

John Sapp: Yes. I really do think, Tim, that volumes are certainly one of the most significant drivers for us.

In the past, we've talked a lot about mix, but the -- and the impacts of ZEB, et cetera. I think you'll see within the material where we're at from a ZEB percentage standpoint. And certainly, what I think it indicates in terms of where those are is that we continue to see profitability improvements, right, relative to our backlog, and that has certainly played through.

So when you couple that with the volumes that we're seeing, I think those are major impacts to us in terms of that EBITDA mentioned.

But Brian?

Brian Dewsnup: Yes -- as we've seen greater, what I'll call operational stability, whether it be supply, labor availability and those types of things, we've naturally seen some better efficiencies within our kind of labor per equivalent unit and those types of things. And so, the improvements you're seeing really are both volume and performance contributing to that.

But volume will always be a very important piece of our business.

Tim James: Okay. That's helpful. My second question, just bigger picture here, looking at the, I guess, the U.S. market in particular, and you've talked a couple of times about the aging fleet and how that's obviously constructive for new deliveries.

I don't want to be devil's advocate here, but I just want to kind of check my thinking. Is there any -- of course, the other way to lower the average fleet age is to retire units more quickly. Is there any indication you're getting from customers that, that might be an option? Is it just given sort of traffic flows and trends and economic conditions that they may just retire more older units and not necessarily replace those? Or do you feel no, they really sort of -- when they're thinking about lowering the fleet age, lowering the operating costs, it's more about they've got to bring in new deliveries at least to replace retirements kind of one for one.

John Sapp: Yes. Tim, it's a great question.

I think what we see relative to the agencies and the customer base that they're supporting that they're primarily focused on around the recapitalization and a continuation of that and less around how they may try and look at retirements, et cetera.

So we do anticipate that this will continue as we've historically seen.

Stephen King: Yes. And Tim, I would just say we've seen in the active bids still being above 6,000 units, the 5-year outlook still above 26,000 supports the view that we feel that those vehicles are going to be replaced.

I think agencies when they extend life of vehicles, the operating costs get higher, the parts spend gets higher. So I think to John's point, there is that drive to get some of those older vehicles replaced. So no, we haven't seen anything, but it is a great question, but we haven't heard that from customers.

Operator: Next question is coming from the line of Daryl Young of Stifel.

Daryl Young: I just wanted to continue on this funding dynamic and specifically, your backlog is obviously huge.

But when you look out to 2027, can you remind us how many of those slots are already scheduled? Or how many of the items in the backlog may be multiple years out?

And then secondly, when you've seen an extension be announced in the past for funding, does that lead to sort of a flurry of activity and a immediate increase in order flow to make sure that transit authorities have their orders in the book?

John Sapp: Yes, absolutely. So thanks very much, Daryl. Appreciate the question.

First off, on the first half of your question, overall, we feel very strong about what we have in terms of slots. If you look at the firm orders that we have, I think that's a good reflection of it.

But overall, in terms of '27, we are very well booked and frankly, extending into 2028 as well. And I'm talking primarily on the North America side with that.

But -- and then relative to the shift that we may see in terms of extension activity, obviously we've had that firm level sitting there at 43% certainly gives us great confidence. It obviously gives us great support out to 2028 in terms of how those funding dollars can be used until then.

And it also affords us some time so should there be a bridge or some level of extension for the U.S. government to work through that new funding and to come to a resolution. With us having quite a bit of time before -- as we look for well into '28 before slots need to start being filled up again.

So overall, we feel good on that. Relative to extension -- sorry, activity as we approach it, I think it's very agency dependent in terms of what they may opt to do as they approach it, looking at what they have in terms of their fleet, depending on their fleet age, they may need to lean in and ensure that they've got the coverage they hate to drop out and then they find themselves delayed in terms -- or having to move back into the queue in terms of their order. And so I would hate to give a broad answer to it other than it's going to be very case by case as they approach it.

Overall, we feel great confidence extending out into 2028 in terms of what we've got relative to our backlog, our firm orders, etc. And certainly, with the bipartisan support, we do expect a bridge or extension will occur, and we'll get the agencies where they need to be as that gets resolved.

Daryl Young: Got it. Okay. And then just one more around the aftermarket. You've obviously described FIFA as potentially a pull forward.

But as ridership trends continue to increase and get back to sort of pre-COVID levels, would there potentially just be an element here where parts stays stronger for longer as ridership recovers and maybe the FIFA dynamic is exemplary of what full utilization might do to bus issues?

John Sapp: Yes. No. It's a great question, Daryl, especially as we talked about the aging fleet earlier, right? Obviously that's going to be a benefit to our aftermarket business.

I think regardless of the FIFA piece, we've seen good growth in terms of our core business and across all of the agencies that we support.We just saw some unusual highs - related to some of the agencies on the FIFA side. But otherwise, we've still seen good growth from the overall aftermarket as well.

We expect that to continue on. And to the question you asked earlier, right, around timing and what some agencies may do, if there is a delay to someone in terms of the procurement, then obviously based on their aged fleet, that does lend itself to more aftermarkets and parts sales, and we're certainly well positioned to be able to support those fleets as they age also.

Operator: Next question is coming from the line of John Gibson of BMO Capital Markets.

John Gibson: Just first one on EBITDA per unit declined slightly Q2 versus Q1. Was this just delivery mix or anything else going on here? And how can we expect this to trend into year-end and maybe '27 based on the order book?

Brian Dewsnup: Yes. I think as we look at the second quarter, obviously volume up, so overall total dollars are up pretty significantly year-over-year. As we think about it on a per EU basis, we delivered a fair amount of units in the second quarter that were coming out of inventory or coming out of WIP. And so those naturally bring overheads with them. And because we've had some production disruption, a little bit of higher labor per unit, those types of things dragging through now that we've delivered most of what we've had in offline WIP, we wouldn't expect to see that continue.

Stephen King: And as Brian mentioned earlier, as we continue to drive those efficiencies and more volumes we should continue to see, I think, stronger improvement in the EBITDA per EU.

I always just caution people, make sure you look at the LTM number just to take out some of that kind of quarterly dynamics that can impact it. But I think as we've seen from '25 to '26, we continue to see that kind of EBITDA per EU number improving.

John Gibson: Got it. And just last one for me. Just when you think of the mix of new orders or inquiries for buses, is it trending more towards diesel and away from ZEBs? Or have you seen any further changes here?

John Sapp: Yes. It's a great question, John. So we have seen some decrease in terms of the overall ZEB percentages.

Look, we think overall, the ZEB transition is -- first off, we have high confidence in it in terms of the long term. We think there's likely to be some timing. We're seeing some of that in terms of push to the right.

Some of that is based on agencies and their infrastructure, their readiness. You have certain agencies that are certainly going to be continue to -- they're all-in push towards that ZEB transformation, and you have others that will, depending on what's happening from a policy or regulatory requirement, look to delay. Part of the reason, as noted, right, to be able to support infrastructure and investment and timing to ensure that they get that right.

Overall, as mentioned, we have high confidence in terms of the overall ZEB transition, but we do see it moving to the right here slightly, but it's from a percentage drop standpoint, not a major player.

Operator: There are no more questions in the queue.

I would like to turn the call back to Stephen King for closing remarks.

Please go ahead.

Stephen King: Yes. Thanks, Lisa, and thanks, everyone, for joining us this morning.

As you heard, really, really strong quarter in Q2 and really pleased with the performance across the team and looking forward to the second half of the year.

As always, if you ever have any issues, any questions that you want to bring up, please do reach out to us at any time and looking forward to connecting again with the third quarter results.

Operator: This concludes today's program. Thank you so much for joining.

You may now disconnect.