NFI Group Inc. (2023 Q2 Results)

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Corporate Speakers:

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

Participants:

- Christopher Murray; ATB Capital Markets Inc.; Managing Director of Institutional Equity Research for Diversified Industries & Senior Analyst
- Cameron Doerksen; National Bank Financial, Inc.; Analyst

PRESENTATION

Operator^ Good day, and thank you for standing by. Welcome to the NFI Second Quarter 2023 Financial Results Conference Call. (Operator Instructions). Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Stephen King, Vice President, Strategy and Investor Relations. Please go ahead.

Stephen King^ Thank you, Shannon. Good morning, everyone, and welcome to NFI Group's Second Quarter 2023 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. On today's call, we will provide an update on our comprehensive refinancing plan second quarter 2023 results to discuss the bid and order environment and our 2023 and longer-term outlook.

This call is being recorded, and a replay will be made available shortly. We will be using a presentation that can be found in the Investor section of our website. While we will be moving the slides via 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 Three, 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 more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected.

You're advised to review the risk factors found in NFI's press releases and other public filings on SEDAR for more details. We also want to remind listeners that NFI's financial statements are presented in U.S. dollars, the company's reporting currency and all amounts referred to are in U.S. dollars unless otherwise noted.

On Slide Four, 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 slots and delivery statistics. Most of our vehicles represent one equivalent unit, while an articulated 60-foot transit bus takes two production slots and is, therefore, equal to two equivalent units.

Slides Five, Six and Seven provide a brief overview of NFI. For those interested in a more in-depth introduction to our business, please visit our investor website and listen to our 2022 Q4 results call. NFI continues to lead the transition to zero-emission buses and coaches, or what we call the ***ZE***volution™.

Slide Eight provides updated statistics on our capability and performance in ZEB. In total, NFI has delivered 3,123 ZEBs in 2015 that have completed over 120 million electric service miles in over 140 cities across 6 countries. Demand for ZEBs continues to accelerate quickly. In our North American public bid universe, over 50% of anticipated customer purchases over the next five years are for our electric vehicles and 36% of our total backlog are now ZEBs.

I'll now pass it over to Paul and Pipasu, who will provide an update on our nearly finalized comprehensive refinancing plan and our financial results for the second quarter.

Paul Soubry^ Thank you, Stephen, and good morning, everyone. I'll begin on Slide 10. In the first quarter of 2023, we embarked on a comprehensive refinancing plan that included multi-year amendments to our senior credit facilities seeking a covenant profile that matched our anticipated financial performance and recovery trajectory.

Since that time, we have made significant progress on all components of that refinancing plan, including $133 million private placement equity financing from (inaudible) Capital, a $92 million bought deal subscription receipt financing and a new CAD $50.5 million equity private placement with a leading global asset manager that was announced today.

The new private placement is for the purchase of 5 million shares of NFI and will have a statutory four-month hold period. It, like all the other equity financing, is contingent on the completion of the full refinancing plan. The addition of this new equity financing has allowed us to lower our proposed second lien debt financing from $200 million to approximately $180 million providing interest savings and lowering our total overall leverage. This change is also expected to be accretive to our EPS metrics.

Through the various transactions, we will generate approximately $443 million in total gross proceeds. $250 million will be used for the permanent paydown to our senior credit facilities, and the remaining funds after payment of fees will be used to strengthen NFI's liquidity by approximately $135 million to $140 million.

Our focus now is to finalize the remaining legal documentation to close all of the mutually conditional components of the refinancing plan. We expect that this comprehensive refinancing will complete prior to August 31, 2023, and we anticipate closing it sooner.

Please stay tuned for announcements for the very short term. In addition to significant effort expended on the refinancing plan, we've remained laser focused on cash management across NFI. Operational performance is improving, but WIP and total working capital levels remain temporarily elevated. We anticipate significant cash inflows from working capital, with the potential to reach up to $100 million, in the second half of 2023.

As we move into 2024 and 2025, we will be investing in working capital as we increase production rates and increase the amount of zero-emission buses built. Our goal is to ensure our working capital levels achieve a more typical pre-pandemic profile on a turns basis or as a percentage of LTM revenue.

Turning now to our 2023 Q2 results. I will begin on Slide 12. We continue to see very high levels of demand for our products and services. Year-over-year, our North American public bid universe is up 120%, and active bids are up 33%. We ended the second quarter with 1,682 equivalent units of bids in process and another 8,372 equivalent units of bids that were already submitted resulting in a new record for the highest number of bids submitted by NFI within one quarter.

We expect this heightened level of bids to translate into steady orders and to support our backlog throughout the remainder of 2023, and into 2024 and 2025. We also saw significant improvement in supply chain performance and associated production efficiencies. There's no question it will take time for our operations and production efficiency to get back to pre-pandemic levels, but 2023 Q2 showed promising signs of significant recovery, supporting our line entry ramp up and hiring efforts that we've embarked on.

In the quarter, Manufacturing segment for bus and coach deliveries were up 66%. Revenue increased by 66%, and Adjusted EBITDA improved by 159% from the same quarter in 2022. This significant improvement was driven by higher volumes, improved sales mix and record quarterly performance from the Aftermarket segment of NFI that exceeded our expectations.

The Manufacturing segment did see lower-than-expected zero-emission bus deliveries. This was due to the requirement to install new drain technology into the energy storage systems on select battery electric buses in North America. The drains were primarily installed in June and July, and the majority of the impacted vehicles have now been delivered to customers. We expect that nearly all of these vehicles will be out of inventory in the third quarter.

The strength of our market-leading Aftermarket parts business has continued through the first half of 2023. Going forward, as the private markets continue to recover and through the execution of several mid-light vehicle programs, we anticipate the Aftermarket segment will continue to generate revenue growth and strong margin contribution. However, Adjusted EBITDA margin percentage may be slightly lower than those seen in the first half of the year, given the strong outperformance seen so far this year.

NFI's total backlog remains at $6.7 billion, up by $1.2 billion from the same time last year. New orders were down slightly quarter-over-quarter, but mostly due to the timing of certain new awards from customers. In addition to the formal awards received in the quarter, we had another 719 equivalent units that were in pending awards.

These are situations where we have been named as a provincial partner by the customer, but formal purchase documentation has not yet been received. We expect these pending awards, combined with the over 8,000 equivalent units of bids submitted will drive significant order activity before the end of the year. Of note, the average sale price per unit in our total backlog is up 20% from the same period in 2022.

Now turning to Slide 13 is a highlight of our overall NFI supplier performance. We've been showing you this for quite some time. Overall supplier risk rating, which compiles a detailed risk assessment process data from our top 750 suppliers, continues to show signs of health and improvement.

We've seen a solid trend of improving supplier delivery performance and this has happened even as we've started to ramp up the levels of production. Speaking of which, we have continued with our plan to increase new vehicle production rates in the second half of this year, subject to continued and sustained supply performance, and we're in the process of hiring an estimated additional 100 direct team members before the end of this year.

This brings you to Slide 14. These are our quarterly vehicle line entry rates or otherwise stated, the number of new buses and coach builds that we start in our production facilities and the quarterly WIP dollar investments. Line entries in the first half of 2023 have showed material improvement from 2021 and 2022. By the time we get to 2025, we expect line entries to be back around 1,500 units per quarter, similar to the 2019 levels we experienced pre-2019. I'll now ask Pipasu to walk you through the highlights of our financial results, after which we'll provide you our outlook on the business and the market.

Pipasu Soni^ Thanks, Paul. Picking up on Slide 15. Backlog remains strong at 9,803 units split almost equally between firm and option orders. We have essentially sold all 2023 production slots and have sold a higher percentage of 2024 slots than where we would typically by this time of year. We also have customer options out to 2028, providing significant visibility for future years.

Heavy day transit bus deliveries were up by 85% year-over-year, low-floor cutaways were up 87%, and coach deliveries were essentially flat. We also saw higher average sales prices within heavy-duty transit and coach, reflecting our ongoing efforts to adjust pricing to reflect inflation as well as transition to higher-priced zero-emission vehicles.

Turning to Slide 16. We show our gross margins by quarter from 2019 through the second quarter of 2023. Aftermarket continued to deliver strong margins driven by healthy demand, favorable mix, and our efforts to lower freight cost. Manufacturing margins bottomed out in the second quarter of 2022 and are now positive for the first time since 2021. We forecast a positive margin improvement trend to continue as we ramp up operations and move beyond legacy inflation impacted contracts.

On Slide 17, we provide additional key financial indicators. Adjusted EBITDA exceeded expectations at $12.2 million, a significant increase from this time last year, and free cash flow, while still negative, primarily due to higher interest expenses, improved by 37% year-over-year.

Liquidity ended at $81.5 million, down from the $124.1 million at the end of the first quarter. The decrease was driven by higher borrowings on our credit facilities, which supported increased working capital levels from spare parts inventory, off-line buses and higher accounts receivable balances tied to the timing of deliveries. AR was especially impacted by the late delivery of electric buses where new drain technology was installed.

We are confident of our refinancing plan will improve liquidity by over $135 million. But as we await its completion, we have been taking other actions to support financial flexibility. On July 20, 2023, we sold our interest rate swap contracts for total proceeds of $18.4 million and as part of the waiver extension that we announced on July 31, 2023, we temporarily lowered the minimum liquidity requirement under our senior secured facilities from $25 million to $5 million. We appreciate the syndicate's flexibility on this change. Following completion of the refinancing plan, minimum liquidity will increase back to $50 million.

On Slide 18, we outlined the impact of Net loss and Adjusted Net Loss, our Net loss for the quarter improved by $8 million from 2022 Q2, primarily due to increased vehicle deliveries and solid aftermarket performance. Adjusted Net Loss also decreased as there were several larger onetime costs in 2022 related to insurance, pension and restructuring for which we normalized that did not repeat in 2023. We I'll now turn the call back to Paul to discuss our outlook and financial guidance.

Paul Soubry^ Thanks, Pipasu. I'm now on Slide 20. I'll provide a summary of some of our key demand metrics. The chart shows the last five years of North American public bid universe, which includes bids received, bids that have been already submitted to customers and a five-year outlook of demand based on customers' fleet replacement plans.

The active bids of over 10,000 equivalent units, combined with a five-year customer outlook provides a record total bid universe of order of 31,600 equivalent unit, which supports our view that vehicle demand will continue to remain high going forward.

Being submitted by NFI were up 170% year-over-year, which resulted in a very busy period for our sales and bid teams. U.S.-based public transit agencies also continue the use of purchasing schedules that have become an alternative to the traditional unique customer procurements. NFI is named on over 25 of these purchasing schedules, and we've been awarded over 1,100 equivalent units off these schedules since 2018.

NFI's Infrastructure Solutions™ business has become an important part of our overall company, allowing us to provide turnkey offerings of both charging infrastructure and zero-emission vehicles. Since its inception, we've been responsible for the installation of 376 plug-in and 35 on-route charging projects for 59 different customers with 11 current projects under contract in 2023 that lasts through 2025.

On Slide 21, we've highlighted our order and delivery activity within the second quarter of 2023. While there were fewer actual awards in the quarter, mostly due to customer timing and the large number of active bids, on an LTM basis, we have received awards of over 5,800 equivalent units.

We also expect significant award activity in the third and fourth quarters based on the current pending awards and submitted bids. The quarter saw several other milestones, including the delivery of our first electric J4500 private motor coach to a Canadian operator named Universal Coach line, and the launch of the Alexander Dennis next-generation Enviro500 electric double deck to the largest operator in Hong Kong named KMB.

Slide 22 shows NFI's book-to-bill ratio has remained well above 100% since our low of 2020. The current demand environment suggests this will continue. Option conversion rates on the LTM basis remained low, but improved over the first quarter of 20'23. This lower conversion rate is expected to be a temporary issue as we have seen numerous older internal combustion engine and legacy EV orders expire and being replaced by new zero-emission bus orders. We anticipate conversion rates will continue to improve in the second half of this year and well into 2024.

On Slide 24, we provide a quick summary of the record funding in place in each of our major markets of Canada, the U.S., and the United Kingdom. This substantial financial support provides a positive backdrop and continues to drive zero-emission bus demand. For a more detailed overview of the funding environment, please refer to 2022 fiscal year results on our website.

Turning to Slide 25. We show our guidance for 2023 and '24 and our 2025 targets. Based on NFI's year-to-date performance and expected second half results we've now increased the lower end of our 2023 guidance range for both revenue and adjusted EBITDA for this year.

We now anticipate adjusted EBITDA of $40 million to $60 million in '23, followed by a significant recovery in 2024 of $250 million to $300 million and a target of approximately $400 million by 2025. The growth in our financial projections is driven by a combination of volume recovery, production efficiency recovery, improved product pricing and an increased mix of zero-emission buses.

As you can see in the chart, our total deliveries dropped significantly from 2019 to 2022, effectively in half. Our 2025 targets for units have us back to about 2019 delivery levels of approximately 6,000 total equivalent units. To meet these expectations, we will ramp up production, which is primarily a function of a stable supply chain and the addition of labor to existing facilities rather than requiring major investment capital of new facilities.

We plan to exit 2023 at a higher production levels, and we'll continue to increase that in 2024, driving volume and overhead absorption leverage that will deliver on our approved adjusted EBITDA and our operating profits and cash flow. We anticipate we will complete nearly all of the legacy inflation impacted contracts in 2023, with the majority of those contracts with the majority of contracts built in 2024 and 2025 being appropriately priced matching higher material input and wage costs through contract pricing and enhanced margins.

We remain confident we can achieve our targets with the expectations that we will exceed the $400 million Adjusted EBITDA target for 2025. We've maintained our 12% ROIC target for 2025 with a potential for significant outperformance on this metric as we delever our balance sheet and see improved working capital with our new financial plan in place. In addition, there have been some recent announcements in the U.S. of heavy-duty transit market that may provide opportunities for our New Flyer business.

In June 2023, Nova Bus, a division of Volvo Truck & Bus, announced it would be ceasing production of transit buses in the United States by 2025. And just last week, our competitor Proterra announced that it filed for Chapter 11 bankruptcy production. It's early days to fully understand the potential impact on the market and on NFI; we are monitoring closely.

On Slide 26, one of the underlying factors in our financial expectations is increased zero-emission bus sales. Zero-emission deliveries have increased rapidly from 8% of total volume in 2020 to 23% last year in 2022, with expectations that will make up more than 40% of our deliveries by 2025. Zero-emission as a percent of our backup also been growing quickly, doubling in size from 2021 to 2022 and rating stable at that level at record 36% in 2023 quarter 2.

Slide 27 shows the average price of each unit in our total backlog, which has dramatically increased for both heavy-duty transit buses and motor coaches since the start of the COVID pandemic in 2020, reflecting a combination of higher zero-emission bus orders, inflation-adjusted pricing, and improved margins in our new contracts.

On Slide 28, we summarize our investment thesis. The last 36 months at NFI has been extremely difficult to navigate. I believe the actual results in the first half of 2023, combined with our projections for the remainder of the year, appropriately demonstrate that we have turned the corner and recoveries now are fully underway and in front of us.

Completing the financing plan with both new debt and equity, which is expected to close in the very near term, will be a major step for NFI and tremendous demonstration of confidence by our investors in our business, in our strategy, our products, and where we're headed.

We are pleased with the first half performance, but there is more to do. We are confident about the path we're on in the road in front of us. And as always, we're proud of our history and, more than ever, excited about NFI's future as a market leader. I'll now open the line for analyst questions. Shannon, please provide instructions to our callers.

QUESTIONS AND ANSWERS

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

Christopher Murray^ Paul, looking at the outlook a little bit and the supply chain. It looks like a handful of suppliers you are still having some issues with. As we think about the ramp, what supply issues need to get fixed, if you will, or what's out there that causes you some concern about being able to achieve the ramp right now.

Paul Soubry^ Morning, Chris. It's a conversation we've been having for three or four years now. And I think you more than anybody in our analyst community have watched our business for a long time. The customized nature of our products, not just in North America, but at Alexander Dennis, as well, always creates complexity of supply chain, given unique demands or requests of certain things on the buses from customers.

What made it so bad as we came out of COVID was things specifically around electrical components, semiconductors, the chips associated with the products that we buy, and so forth.

As we now see our supply community, most of those systemic global issues of demand have gone away. It has now moved down to specific supplier challenges, either with some of their input materials or some of their own labor demands. And we've got some great examples in our business of things as simple as seats or windows where suppliers to our business slowed their business or dropped their business dramatically during COVID, started to ramp up, and are now struggling to staff their business to supply us at this current pace. As you know, we’ve done a number of things.

We’ve made investments in redundant inventories in our factory side, where possible, to have additional inventory (somewhere in the neighborhood of $50 million to $70 million of excess spare parts inventory in our business) to try and Band-aid or help support.

Where we think we may have trouble with suppliers, we are sourcing alternate sources wherever we possibly can.

We continue to manage the pace of ramp-up with both those issues, our own labor supply as well as the supply of our customers. We still have excess off-line work in process, and so both Chris [Stoddart] in North America and Paul Davis in the U.K. are managing the burn off, if you will, of that excess WIP at the same time as they're actually ramping up their businesses.

We've been very careful not to overpromise the ramp-up of our business, but we're feeling more and more comfortable every day that our supply community is able and capable to work alongside us to increase.

The other thing we've done is ramped up and added a number of people, and we've got more to add in terms of helping, managing and supplier development associated with those in our supply chain community, both from our facilities or supporting some of those critical suppliers at their locations. We really believe we've turned the corner. We've still got excess with to get rid of off of our lines, generate cash flow, but we are very pleased at the pace that we're now able to start to ramp up.

Christopher Murray^ Okay. Is there any particular category of part or component that is an issue? Or is it kind of moving around day-to-day?

Paul Soubry^ Every customer is different. Some of the issues that we still kind of see that, let's call them, commodities, high-voltage cables. The sheer ramp-up across the world of electric vehicles, whether it's cars, trucks, buses, whatever the demand on the high-voltage cable community and the looms associated with is one of the commodities we're struggling with. The other one that continues to be a bit of a problem, although improving, is glass or the fabrication of windows.

But compare that to a year or two years ago where we talked so much about microprocessors and electrical wiring harnesses and so forth. Some of it today is still just day-to-day management of current suppliers, but I really can't point to any global commodities that are causing us problems today.

Christopher Murray^ Okay. Maybe moving on just thinking about kind of the market in the U.S. and some of the shifts there. So, if I go back and I think about U.S. market share pre-pandemic between Proterra and Nova, you're probably maybe about 1/4 of the market.

And we've also seen Nova’s sister company Prevost pulled out of the U.S. market and the public market side and Coach, as well. Just thinking about this in a couple of different ways. One, you've got a very high number of bids in process right now, which I'm going to guess some of those might be direct competitors on those bids. So, kind of curious about that.

But also, when I go back and I think about the market over the last, call it, 20 years, I mean, we've seen different market participants exit. I think, maybe like I think it was 2005, you saw Orion. You guys helped Nova exit the market. But there is also some opportunities for you guys to either take over contracts or move around contracts. Kind of wondering about, given the fact that you're sold out through 2023, 2024 sounds pretty full.

What kind of opportunity set is there for you right now to do that? Is there anything aftermarket to maybe look at? And I guess the other piece of this is, is there any risk on some of the contracts or some of the transit authorities where you were dual source with Nova that there's risk in the future just being the single source supplier.

Paul Soubry^ Well, those are questions, Chris, that we ask ourselves every day. Of course, we're a number of weeks since Nova made their announcement. They haven't really said anything public in addition to that 2025 is 1.5 years from now. So, we’ll see what that really means in terms of activity. And, of course, the Proterra news is absolutely fresh. I'll focus those questions and conversation more internally. We know what we've sold. We know the margins that we bid on those contracts.

We believe that we've embedded a significant comfort in the costing base of those contracts so that we believe that if we execute as we have in the past, our margins will be considerably better than what we saw in 2021 and 2022 and even some of them this year in 2023. The sheer number of units that are sitting out there in bids that we've already submitted.

We've been very appropriately priced and very conscious about the expected margin coming out of those things. I'm not so sure that we want to absorb any of the contracts that our competitors have taken. They were all bid like us at a time when they were very aggressive. We have our own known customers.

We have our known bids where we've gone after. The last thing we want to do to ourselves, to our employees or our customers, or our investment community, is to overpromise or try and ramp up too fast. We're comfortable with the supply chain recovery, but there's potential to improve some of those labels. But, remember, we've got to balance that with labor. And, you know, Chris, that when you walk through our facilities, this isn't just put a part on a shelf type labor. These people have to be able to read blueprints.

They have to be able to interrogate the computer. They have to deal with the variability of every bus being different down the production line. So, we’re just going to play this game very carefully. We’re very comfortable with where we’re at. We gave those guidance numbers long before Nova talked about their strategy or Proterra advised of their financial challenges. From where I sit, there is absolutely upside, but we’re not going to overpromise or get aggressive to try and take that stuff and put at risk our own recovery.

The financing allows us to have the financial flexibility to be able to navigate through that. The unwind of the WIP generates cash flow that we today have sucked up in our business. As I mentioned in my commentary, as we get more zero-emission buses into our business, it, by definition, sets up more working capital because they're more expensive parts or batteries and things that go into those vehicles. The aftermarket business, is there more opportunity?

Well, Proterra has, I don't know the exact number, but maybe 1,000 buses on the road, it's not a massive aftermarket, and Nova, of course, Nova has a partnership with Prevost on the support of their vehicles in Canada and the United States through a shared service infrastructure and a parts business. So, I'm not sure there's a massive upside there. We're going to play our game. We're not going to chase our competitors.

Christopher Murray^ One follow-up question on the whole of it. I mean one of the things that we were talking about around electric vehicles, for the last few years anyway, is the risk of new entrants into your space. And certainly, we've seen a lot of new interest in the light auto space.

What are your thoughts about the maturity of the heavy-duty market where you guys operate? And do you still think it's as much a risk as it used to be with new entrants into the marketplace? Or do you think that this might settle out with two or three players and then we move from there?

Paul Soubry^ Well, Chris, we're always healthy, healthy paranoid about the recovery of our competitors or the performance of our competitors or about the threat of new entrants. Years ago, we heard a strategy of Van Hool, for example, showing up to North America and never did. Could this open a door for them? Sure.

A Buy America-compliant U.S.-sourced vehicle that has to be tested in North American standards does not happen overnight. We saw a competitor that went through the SPAC process, called Arrival, try and disrupt the space with a standard vehicle. What color do you want and how many do you want? And effectively sold nothing in North America. I think they had one contract for five buses, and I don't think they were even delivered.

We have a very solid competitor in Gillig. We have smaller competitors like El Dorado National. Who knows what comes out of the bankruptcy of Proterra, whether the Proterra bus business survives and so forth. I think, where we sit, our position is, the market demand is better than it's ever been. We have a known order book with solid margins in it. We have bids out there with solid margins in it. If the market gets a little bit better, and we can get more, we'll do it.

I don't see new entrants showing up tomorrow anytime quick, but there's always the threat that somebody like the European manufacturers takes their capability and sets up in North America or the Chinese manufacturers that are privately owned to try and show up and set up in North America. But I'd point to somebody like BYD that got into the space, maybe put 1,000 buses on the road in the long period that were here, but really haven't disrupted the market. It's a very unique, highly customized space that we're very, very good at. So, I would say there's more wind in our sails than anybody else's right now, but we're being very cautious at the pace that we're going to recover.

And in our notes, Chris, in our commentary today, and you've seen this before, we're not projecting to get to crazy market levels or to double our overall business. What we're expecting to do is get back to our pre-COVID levels with much healthier margins and a significantly stronger Aftermarket business. If there's more on top of that, that's only good and upside for our business.

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

Cameron Doerksen^ A question on the second lien loan. I wonder if you can talk a little bit about some of the terms. It looks like the interest rate is going to be 14.5%. But what about what term and ability to prepay?

I mean the reason why I ask is that it's a pretty high interest rate. It feels like a year from now, given the progress that you're making and your projections, that you should be able to refinance this at a much more attractive rate. So, just anything you can describe about the ability to prepay and terms around that.

Paul Soubry^ So, we obviously can't get into all of the details because it hasn't closed yet. We're in the late stages in here. I'll let Pipasu talk about some of the concepts rather than specific numbers around prepay and so forth. But you're absolutely right. The whole strategy of that was a different kind of debt to be able to reduce the bank syndicate, but also make sure we have the flexibility to do what we needed to. So, Pipasu, some color for Cameron that you might want to add?

Pipasu Soni^ Yes. So, I mean at this stage, one of the things like Paul said, we can't get into all the details, but we are looking at a prepay option and expect we'll have some flexibility not to go the full five years in terms of the bridge financing. So, as we kind of get through this and announce it, I'm sure we'll get into a lot more of the details.

Cameron Doerksen^ I guess we'll wait and see on that. On the pricing, highlighted the 20% increase in the backlog pricing. I wonder if you can maybe just describe how much of that kind of increase year-over-year is related to more zero-emission buses waiting in the backlog versus actual price. And with that 20% year-over-year, is that enough or more than enough to fully offset the inflationary pressures you've seen over the last couple of years?

Paul Soubry^ Well, it's a really good question, Cam. And, of course, you and the other analysts have seen the way we do this stuff. But remember, these are highly customized, highly spec'd. They are cost to bill of materials based on unique requirements for seats or windows or cameras or whatever the customer wants.

We have multiyear supply contracts with our battery providers, so we got a pretty good handle on the inflationary costs associated with that. The backlog of our zero-emission buses has gone up from, say, 13% or 14% to now 36%.

So, when we sit in a bid meeting today, if it's a conventional bus, we've got a pretty good handle in conventional ICE bus. We've got a pretty good handle on the history of the costs, we have accounted for all of the inflationary pressure, and some, plus, we've taken a much more aggressive [approach] on margin. We've got a pretty solid backlog. We're being very strategic about who we're going to sell our capacity to. We're going to focus on our key customers that have been loyal to us.

The zero-emission pricing has some elements of new risk around a different supply chain and so forth. But the days that we experienced in 2020 or 20’21 where we had to run around and try and figure out who we’re going to sell some slots to because nobody was exercising their options, right now are behind us. We're at this luxury of being able to be pretty strategic and pretty aggressive on who we're going to sell capacity to.

And, as I said to Chris, the dynamic now with uncertainty around two of our competitors -- we're kind of feeling in a much more comfortable position as we bid. Overall, clearly, zero-emission buses command a higher sales price given the bill of materials, but also a higher margin, given the risk associated with that.

And we're headed to 40% to 45% of our production in 2025 will be zero-emission vehicles, whether it's battery electric or fuel cell electric, and we're just managing that very, very carefully. We're not swinging for the fences and making promises. We're being so prudent on costing and pricing, but we're actually being far more aggressive on our own position around the margin that is associated with selling those slots, given the demand.

Operator^ I'm currently showing no further questions from the phone line. I'll hand the call back over to you, Stephen.

Stephen King^ Okay. Well, thanks, Shannon, and thanks, everyone, for your questions this morning. As always, please feel free to reach out to us at any time with any further questions, and please visit our website. And hopefully, you'll hear from us again soon on the comprehensive refinancing Thanks, and have a great day.

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