

NFI (2025 Q4 Results)

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Corporate Speakers:

- Stephen King; NFI; Vice President, Strategy and Investor Relations
- John Sapp; NFI; President and Chief Executive Officer
- Brian Dewsnap; NFI; Chief Financial Officer

Participants:

- Chris Murray; ATB Cormac Capital Markets; Analyst
- Ty Collin; CIBC; Analyst
- Cameron Doerksen; National Bank; Analyst
- Daryl Young; Stifel; Analyst
- Unidentified Participant; Bank of America; Analyst
- Tim James; TD Cowen; Analyst
- Jonathan Goldman; Scotiabank; Analyst
- Unidentified Participant; Bank of America; Analyst

PRESENTATION

Operator^ Good day. And thank you for standing by. Welcome to the NFI Fourth Quarter 2025 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 our conference call. Joining me today are John Sapp, President and Chief Executive Officer; and Brian Dewsnap, Chief Financial Officer.

On today's call we will give you an update on our annual and quarterly results, highlighting a record year in 2025 for NFI. You'll also hear from John on his first few months as CEO and his top priorities coming into the year. This call is being recorded. And a replay will be made available shortly.

We will be referring to a presentation that could 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 Two, 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.

In the appendix of this presentation, we have provided a list of key terms and definitions that will be used on today's call. A reminder that NFI 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.

Slides Three and Four provide a brief overview of our company. NFI is a global independent bus and motor coach manufacturer and total mobility solutions provider.

We offer a wide range of buses and coaches on proven platforms and we hold leading positions in transit and coach markets with the strongest aftermarket network in North America and the U.K.

More detailed information is available on the NFI Group website. Slide five provides some brief insight into NFI's product and geographic mix and other milestones. I'll now pass the call over to John.

John Sapp^ Thanks, Stephen. And good morning everyone. And thank you for joining us today. I'm going to pick up on Slide Seven.

It's been just over two months since I started with NFI. And in that time I've had the opportunity to see firsthand what makes this organization a leader in the markets we serve.

I've visited numerous facilities across our network in the U.S., Canada and U.K. and I've had the opportunity to work closely with the leadership team to get alignment on our priorities for the year.

What drew me to NFI was the critical role that the company plays in driving cities, economic activity, environmental progress, and enabling connections. NFI's purpose is to move people and I've seen our team's commitment to that mission every single day since I've arrived.

Whether it's mobilizing actions to support customer deliveries, executing field service activities, providing aftermarket parts completing complex engineering or fabricating components for buses, the team at NFI remained focused on the end goal of supporting customers to ensure they can keep their passengers and riders moving safely.

I'm honored to be following Paul Soubry in this role. The legacy of his outstanding 17-year tenure will forever be a part of the NFI Group.

While we wish him all the best in his retirement, I'm also pleased that he will remain available to us and myself as an adviser going forward. As incoming President and CEO, my focus has not changed for the sake of change, while I also want to make it clear that status quo is not the plan.

While we are well positioned for success with a strong USD13 billion backlog, a very positive demand outlook and foundational aftermarket business, I also want to bring new perspectives and fresh ideas to the business and our longer-term plan.

The leadership team and the Board have developed a multiyear financial plan that will see NFI continue to grow, and I'm committed to making sure that we deliver and execute to our expectations. I'll now pass it over to Brian to go through the fourth quarter results before we get into a detailed look at our outlook.

Brian Dewsnup^ Thanks, John. Turning to Slide Eight. Q4 was a record quarter for NFI with the largest revenue and adjusted EBITDA in our history.

We saw a 22.5% year-over-year increase in revenue and is almost 79% year-over-year increase in adjusted EBITDA. We achieved adjusted net earnings of USD59.6 million for the quarter and a 45.7% increase from Q4 2024.

Our liquidity increased by USD319 million year-over-year, reaching almost USD446 million. This reflects a temporary positive increase on the battery settlement. Total leverage inclusive of all debt improved to 3.49x, an improvement of 5.3x from 2024 Q4.

We continue to make meaningful progress towards our leverage target of 1.5 to 2.5. The overall improvements were largely driven by the continued strength in manufacturing sales mix as we convert our backlog into results with increased unit economics.

The quarter was also positively impacted by the battery settlement agreement reached in mid-December which is detailed on Slide Nine.

For reference, in the third quarter of 2025, NFI recorded a USD229.9 million provision as part of the originally announced battery recall. The majority of this provision relates to the expected cost of the recall campaign while a smaller portion is for potential additional warranty and support costs for other nonrecall related battery electric buses in service from the same battery manufacturer.

NFI work throughout the fourth quarter with the impacted supplier and came to the final settlement agreement in December that included the following items: immediate cash payment received in December an inventory of battery cells from a leading global provider which NFI plans to use with a new battery manufacturer starting late 2027.

Hiring of certain engineering and service employees who will support the recall and provide oversight on NFI's other electric buses, assumption of software and intellectual property plus facilities for office and engineering labs and the storage of battery cells.

And finally, cash payment in escrow to support transferred employees and the facilities mentioned above. The table on the left showcases the financial statement impacts.

On a net basis, we recorded a USD63.9 million loss which is generally viewed as a conservative approach considering the likelihood that certain warranty claims may or may not come to fruition. We're also focused on managing the cost of the battery call campaign to lower cash outflows.

Recognition of the battery recall and settlement impacted numerous financial metrics in 2025. Given the nonrecurring nature of this event, we have normalized adjusted EBITDA and adjusted net earnings. To see a full breakdown of the impact, please see our MD&A and financial statements. Moving to Slide 10.

We highlight the quarterly and full year deliveries by product lines. Transit bus deliveries were down 6% in the quarter and 7% for the year, primarily due to lower U.K. deliveries, partially offset by higher North American deliveries. Despite these lower deliveries, the average selling price or ASP of heavy-duty transit bus increased by 33% year-over-year, reflecting the conversion of stronger backlog to results.

Motor coach saw a significant increase in the quarter with deliveries up 48% from 2024. This was driven by customer demand, acceptance and seasonal timing. The ASP for this segment saw a 3% growth year-over-year. The low floor cutaway and medium-duty segment saw a record full year delivery of 761 units, an increase of 22% year-over-year and a 12% increase in the quarter. The segment also saw a 15% increase in ASPs.

Turning to Slide 11. Aftermarket gross margin percentage was up significantly from Q3 and up from 2024. This reflects sales mix benefits and updated rig reflecting the impact of tariffs.

In the Manufacturing segment, gross margin was up to 14.8%, an increase of 780 basis points from Q4 2024 and 460 basis points from the previous quarter after adjusting for the impacts of the battery recall. This increase was also driven by conversion of backlog and the positive benefits of geographic mix.

Slides 12 and 13 walk through the year-over-year changes in adjusted EBITDA within our reporting segments. I'll just highlight that manufacturing adjusted EBITDA increased by USD59 million or 167% in the quarter and increased by almost USD150 million on a full year basis.

On Slide 14, free cash flow for 2025 was positive at USD67.8 million with a year-over-year increase of USD86 million driven by operational performance improvements and lower cash interest costs.

When we factor in changes in working capital, there was a significant positive impact on cash flows in 2025; this was primarily driven by the battery recall provisions, somewhat offset by the increase in inventory from the sales received in the battery settlement and higher AR balances reflecting a busy delivery period in December.

Slide 15 showcases a bridge from net loss to adjusted net earnings, with all amounts shown net of taxes. There were some large nonrecurring and unusual items driving the adjustments in 2025.

These included USD25.9 million related to our June 2025 refinancing, USD137 million of costs at Alexander Dennis related to impairment and restructuring, and USD19 million seat supply adjustment reflecting labor inefficiencies and unproductive overhead. And finally, the net impact of the battery recall and settlement of USD39.6 million. Adjusted net earnings for 2025 of USD85.4 million is an increase of USD88.8 million from 2024.

Looking at Slide 16, we summarize total leverage, liquidity and ROIC. Total leverage which includes all debt instruments continues its downward trend now under 3.5x. Liquidity was up approximately USD333 million year-over-year and ROIC reached double digits.

This reflects our positive cash generation, the impacts from the battery settlement and debt refinancing. I'll now turn the call back to John to discuss our outlook.

John Sapp^ Thanks, Brian. We're incredibly excited for the path ahead at NFI. Coming off record results, 2026 is shaping up to be another strong year as we execute on our backlog, increase production and drive operational initiatives. We'll also need to navigate through some broader macroeconomic conditions that may create headwinds.

On Slide 18, I want to walk through my key strategic priorities that fall under four pillars. These are the drivers of our performance in 2026. First on this list is operational excellence.

As a manufacturer of complex, highly customized vehicles, it is critical that we maintain our focus on performance. To many who have followed NFI, you'll know that recovering supply chains have impacted our operations, so it should be no surprise that supply chain performance is a key priority for our team in 2026 and beyond.

In tandem with that, we'll be focusing on our cost management to ensure we create efficiencies. We want to make sure that we invest in the right areas and resources to enable our continued innovation, but need to drive production leverage to increase EBITDA and earnings growth.

Market leadership is another focal point for the year. This is where we want to enhance our customers' experience by continuing to meet their customized needs and providing the broadest and highest quality products on the market.

We also want to maintain our position as being our industry's employer of choice where people can successfully expand their careers as this will further drive overall performance for us as a business. These operational and market activities will underpin our profitable growth. A key factor here is ensuring we continue to capitalize on our impressive backlog and convert high-margin units into deliveries.

In the aftermarket segment, we want to continue expanding on growth strategies that provide further penetration into bus and coach parts and service. This includes more targeted focus on specific components and the increased use of e-commerce and web store platforms.

The U.K. order book is a high priority in 2026 as we seek to expand our deliveries and revenue in that region.

We are laser-focused on our competitive positioning in the U.K. And while we've been happy to see the continued rollout of our new EV products, overall demand is behind our expectations.

We are continuing our work with government partners to highlight the importance of domestic manufacturing for the U.K. and we are hopeful that the output of ongoing discussions will deliver a positive outcome. We've had great support in Scotland, but need to see broader focus on domestic production to drive increased order improvements.

Lastly, NFI is driven to be a long-term business generating value for all our stakeholders. In 2025, we strengthened our balance sheet through our inaugural U.S. bond issuance, and we continued progression towards our target leverage range.

It is a critical point for us to continue our deleveraging journey while completing the execution of the battery recall campaign and focusing on continued development and succession of our leadership team.

With those priorities forming the background and foundation for 2026. We also wanted to provide forward-looking guidance for the year.

We anticipate a revenue range of USD3.9 billion to USD4.2 billion with adjusted EBITDA between USD370 million and USD410 million and cash CapEx between USD50 million and USD60 million. In the box below, you'll see a few of our capital allocation priorities for the year. The top of those being continued progress on our target total leverage.

We expect we'll likely achieve our target in 2027. And as we progress towards that goal, we want to make sure that we continue to invest in the existing business growth and maintenance CapEx.

I'll now walk quickly through a few drivers of our guidance expectations. On Slide 19, you can see the makeup of our backlog of over 15,300 units, 41% are firm orders and 59% are options.

Our backlog continues to provide significant visibility for our production schedule and has helped us fill our 2026 North American public market production slots and we are now selling well into 2027. The options offer runway and visibility for our production

schedules over the medium and longer term. The black line represents the total value of the backlog which is now over USD13 billion, having grown by USD7.3 billion over three years.

Slide 20 demonstrates the improvement in ASP per EU for firm and option orders heavy-duty transit ASPs in dark blue have decreased slightly with changes in propulsion mix. Motor coaches and light blue have seen a significant increase in ASP driven primarily by public market demand. The ASP for heavy-duty buses is up by almost 55% since Q4 2021 and motor coaches are up 55% over that same time period.

Incoming demand for our buses remained strong in North America, and this is shown in our bid universe on Slide 21. We ended the quarter with active bids of 7,120 EUs.

This includes roughly 4,200 EU and our 4,100 EUs and bids submitted which is up 12.6% year-over-year. We believe this increasing demand is driven by the funding environment, fleet age and replacement activities happening in several major cities.

The black line on the chart shows new awards for man options. The chart illustrates the typical correlation between bids submitted in light blue and contract awards in black with a lag of a few quarters from submission to award.

The gray section of the chart shows our 5-year expected public bid universe which is compiled from customer fleet replacement plans and currently sits at roughly 225,000 EUs -- this is an 8.9% increase from the third quarter and a 14.7% increase year-over-year.

We feel the sustained demand is reflective of a longer-term replacement cycle happening in North America as older buses are taken out of service and replaced by newer units. Slide 22 shows our book-to-bill and option conversion ratios, another important metric for incoming orders.

Our option conversion ratio reached 83.4% in 2025 an improvement from 76.3% in '24. This reflects increased order activity, a higher number of exercise options and the improved competitive landscape.

Slide 23 highlights our quarterly production rates and deliveries from '22 to '25. We continue to experience sustained production rate increases through 2025 in North America but these were offset by lower U.K. production matching lower incoming order demand. Production was also impacted by certain supply chain disruption.

We expect to see line entries continue to increase in '26 driven by our all Canadian build facility, North American double deck ramp-up and medium-duty and public coach contributions.

Slide 24 shows our aftermarket segment's overall performance an important contribution to the NFI Group economic engine. From 2019 to 2025, the business saw a 6.8% CAGR

in revenue and an 8.9% CAGR in adjusted EBITDA. While there was some decline in 2025. This is primarily due to a lower large-scale program revenue, somewhat offset by poor parts sale growth.

We continue to prioritize growth initiatives within the aftermarket and feel that while 2026 will likely be in the low single-digit growth range. Longer term, that business has a potential for stronger growth.

On Slide 25, we recap the guidance ranges for key metrics in 2026. The factors underpinning this guidance are higher production and delivery expectations, continued conversion of our strong backlog into results, improving supply chain performance and readiness, helping to drive improved labor efficiency all supported by contributions from the aftermarket segment.

In terms of seasonality, typically, the first quarter is our slowest period, while the fourth quarter is our busiest period.

We expect 2026 will follow that same pattern and anticipate year-over-year quarterly growth as reflected in our guidance ranges. There are various headwinds impacting the business including propulsion sales mix, the speed of supply chain improvements Alexander Dennis U.K. market demand and delays in the timing of U.K. procurements with increased domestic focus.

Finally, we also have to work through macroeconomic factors such as tariffs and trade relationships that we expect will have some impact on results and potential demand within private coach. For clarity, our guidance includes the current known impacts of tariffs as of March 11, 2026.

It does not reflect any material changes that the tariff environment could have on demand, pricing or cost in the future. On Slide 26, we provide our latest views on the macro tariff environment and how they impact NFI today.

In each of the boxes, we have identified the major tariffs that are present and applicable to our industry, you'll notice specific color-coded bars that imply the impact to NFI for those tariffs with red being the most significant impact and green being the lowest.

The two highest impact areas are Section 232 truck and bus originally launched in November '25 and the steel and derivative tariffs, we are continuing to work with our partners to ensure we mitigate these costs wherever possible.

As of now we see tariffs having more of an overall impact on private coach market demand as opposed to the public market. This is largely due to the established manufacturing facilities when the -- within the U.S. for public market demand.

We continue to view tariffs as largely a pass-through cost to customers through contractual obligations and through general price increases. This does require discussions

with customers, and we may not be able to cover all costs, but we've generally had success in being able to find solutions. Longer term, we will continue to assess our geographic production schedules while considering tariff exposure.

In 2025, we made significant investments in our U.S. operations, increasing staffing in the country by 7%, opened our new Las Vegas production facility, opened a new service center in California and acquired a Michigan-based supplier.

We also invested in the Canadian capabilities culminating with the recent ribbon-cutting of our all Canadian build facility. We continue to monitor the trade landscape and adjust where necessary to ensure we are as competitive as possible.

Wrapping up on Slide 27, just a few final comments. The fourth quarter of 2025 was a record period that helped contribute to NFI's strong fiscal year. We saw increased revenue, converted backlog in the results and had solid cash generation supporting debt repayment and deleveraging.

Our total backlog of USD13 billion, combined with option conversion rate and book-to-bill ratio reinforces our confidence in our near- and long-term outlook. Our guidance numbers are rooted on our manufacturing operational increases alongside the stable contributions from our aftermarket segment.

Despite various headwinds in 2026, we have not changed our overall view that NFI is on a strong trajectory that should see improvements across operating and financial metrics. We are confident in the strength in our markets and our product offerings and in our team's ability to deliver excellence in 2026.

I'm excited for what's ahead. This is a great team, anxious to continue and build on NFI's strong forward trajectory, poised for great growth and success in 2026 and beyond. With that, I will now open the line for 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 Cormac Capital Markets.

Chris Murray^ I guess the first question is just maybe turning to the guidance a little bit and trying to understand maybe unpacking this a little bit.

So I think you made the comment that you have expectations that for the most part, most of the soft has sold out for '26. Just looking at kind of where the numbers end up, let's assume, as I said, aftermarket is relatively flat year-over-year.

Can you just kind of walk us through your thoughts around how many shipments do you think you're going to see in the year? And just going back to kind of the embedded

margin, it just feels like maybe we're missing something in terms of what's there, if there's any particular issues or if there's any buses that are still kind of impaired or anything like that?

John Sapp^ Yes. Thanks, Chris. I appreciate the question. And we'll look forward to connecting with you here further, certainly. But overall, for us, certainly, we feel really good about what it is that we have in front of us here in terms of 2026. We've got a significant amount of growth that we need to certainly go deliver on.

I think we don't share the specifics in terms of EU numbers that we anticipate. But certainly, the growth that we're showing here will have a strong and demonstrated improvement in term -- or increase relative to the number of BUs that we expect to see.

And when you factor in certainly the growth trajectory that we've been on over the past few years, we -- I think what we're demonstrating here in terms of our growth and based on the guidance, it certainly is one that we feel good about. And at the same time we recognize that there are some potentials of headwinds that could emerge here over the course of the year.

There's going to be key factors that we expect over this next year that are going to drive the improvements that we need to go deliver on, right? We've got the necessary pieces in place from an operational growth standpoint, that include the all Canadian build project.

We need to see a larger contribution in terms of some of our Alexander Dennis U.K. business as well as the workout of our North American double deck. Those are going to be key enablers for us in terms of delivering on the guidance numbers that we've shared.

But we do expect continued growth as well within our low-floor cutaway business. So the pieces are all in place for us to be able to go deliver on what we've shared again, we don't share the number of us that are going to be a part of it.

But we have high confidence certainly in terms of what we see. We need to be careful in terms of some of the headwinds that could emerge. I'm going to also ask Brian to share a few thoughts on this as well.

Brian Dewsnap^ Yes. I'd just like to add that, thanks, John, good response there. I'd just like to add there -- you did mention that we have a lot of slots sold for 2026. While that's true in some of our businesses, we still have a fair amount of volume to win in the -- particularly in the private coach business and in the U.K. So we take that as a balance when we've developed our models and our guidance.

Chris Murray^ Okay, fair. And then maybe for John, you've had just a few days on the ground and getting a chance to see the organization.

Is there anything that you're thinking about in terms of what you've seen so far and kind of initial thoughts? You also made the comment about investing some growth CapEx. Just trying to maybe understand what that might look like.

So any initial thoughts on sort of where you're at as we take over the CEO role. Any thoughts around the strategic directly fit the company or that little while.

John Sapp^ Yes. Thanks, Chris. Again, a great question, and I appreciate the chance to share some thoughts on it.

First off, yes, it's been two months since I've been in and I have been incredibly impressed with this company and what we have and really excited about what we have in front of us. That's based on a number of factors that I would expect that many of you all see as well.

First off, an incredible backlog. We get to go deliver on that. I'll talk more on that here in a moment. We've got a very experienced and motivated team.

Now this is a team that is really geared around the mission that we have of connecting people and doing it and ensuring we connect folks safely. And that's an incredible mission that inspires this team, and so it certainly inspires myself.

We've got an established brand and reputation that's built on decades in every one of our business units and how they've touched the market. And we really have, I think, an excellent multiyear plan in terms of how we're going to be able to drive growth in manufacturing which speaks a bit to your CapEx question there.

I shared a little bit in terms of what my priorities are going to be. The operational excellence piece, I can't emphasize that one enough.

And the first question that you shared right around us delivering on this growth we got a high confidence in terms of what we're going to be able to go do and deliver here certainly within '26 and beyond. And our customers need that of us. And that operational excellence piece isn't just around our own internal manufacturing, but also ensuring the supply chain readiness and then we bring our suppliers along the way.

So we'll be very focused on that as a key priority for myself. That is an area that I've emphasized in the first two months to answer your question.

We also need to ensure that we're driving profitable growth. And so as we see our volumes increase ensuring that we're being very effective in terms of our cost management.

We also need to ensure that from a growth standpoint that where we see these very strong areas of high growth that the other -- that we see that we're able to drive the necessary

growth across all of our business units as well to be able to support the long-term growth expectations for us as a business.

And then the final point is just around driving the -- continuing to drive the focus on customer centricity -- that certainly has jumped out to me as being so critically important for the people that are part of this business, but it's one that we're going to continue to double down on as our customers -- our end-use customers and their customers rely on our services every single day and the products that we provide. So we're going to continue to ensure that's key for us.

On the CapEx front, we've made a number of investments to include what we shared recently around the old Canadian build. We're going to continue to make the right CapEx decisions that ensure we've got the footprint in place to be able to deliver on the long-term projections.

For '26, we feel good about everything that we've done relative to CapEx that enables us in terms of this year. But we're going to continue to make the right decisions around where that CapEx investment goes and how we're building for the future. So thanks for the question, Chris.

Operator^ Our next question comes from the line of Ty Collin with CIBC.

Ty Collin^ John, great to hear from you on the call this morning. Maybe just for my first one on the seating supply situation. Maybe I missed it in the published materials.

But have you made progress clearing out that backlog of complete buses waiting for seating. And is the expectation still that the overall seating issue is going to largely be normalized sometime after Q1?

John Sapp^ Yes. Thanks, Ty. It's a great question. And let me share a little bit around seating and certainly what we're doing in terms of our overall supply chain here as we drive growth. We're very pleased with where we're at relative to the progress that the team has made since the end of last year around seating.

Obviously it's well known in terms of what we've done to really secure that. I think the JV partnership that we've established, one is one that we feel we're not just fuel, but we've been really pleased with the results that our collective team has been able to generate.

That has been focused on driving the necessary governance within the supplier, establishing the processes around material planning, bringing the facilities where they need to be to ensure that they can meet our -- and prepare for our long-term growth. And our partners have been with us certainly along the way. We have seen the needed changes and been next to the team there within that -- the JV supplier to ensure that it's progressing in the way that we would expect.

What we've seen in terms of the improvements, we haven't published those for just because we are seeing the progress, frankly, that we need to. We're going to see it continue to linger a little bit into Q2.

But what I would say is, overall, the improvement has been remarkable in terms of the number of buses waiting seats, et cetera. So we do anticipate that in the early Q2 timeframe that we will see this fully resolved and that we will be positioned relative to the JV for long-term success in terms of the seating.

Ty Collin^ Okay. That's great color. And then I'm wondering if I could just get your thoughts on potential impacts of the current unfolding Middle East conflict -- are there any sort of red lights blinking within your supply chain which aspects of the supply chain would you consider to be most vulnerable -- and are you taking any sort of proactive action at this point in response to rapidly unfolding events?

John Sapp^ Yes. Thanks, Ty. Of course, we're watching these events very closely. What I would say for us is that generally our supply chain is not affected by the region.

We have a couple of suppliers that we watch, but very minimal in terms of the amount of material that we see come and through that region. We are watching it closely. We are ensuring that, one, obviously our first and foremost is concerned for anyone that may be effected.

But second is ensuring that we're necessary if we need to have alternative plans that we very quickly work through -- the good news for us is we've got a very broad supply chain.

We can draw on our supply base from all over the globe. And we have certainly many redundancies that exist out there for us to be able to -- or suppliers, right, that can create that resiliency and redundancy where we need it. So overall, we generally, from a supply standpoint, feel good about where we're at to be able to navigate the current geopolitical environment there in the Middle East.

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

Cameron Doerksen^ I wanted to ask about average selling price, the way obviously you reported its heavily impacted by, I guess, the mix of bus types.

I'm just wondering if we could sort of look at the like-for-like pricing like a diesel versus a diesel last year. Are you still, I guess, seeing your selling price increases as you're coming in with new orders? Just trying to understand, I guess, the margin impact of still positive pricing?

John Sapp^ Yes. Thanks, Cameron. Great question. Well I'll say at a very high level is that we continue to see the benefit of pricing that has played through.

Obviously there's been some impact in terms of over the several years going back, right, that has seen this that has taken time for some of the pricing benefits that play through and you're starting to -- and we have been certainly seeing that here over the past 12 to 24 months.

So generally speaking, yes, we're going to -- we see that positivity relative to the pricing piece. But I'm going to ask Brian to expand on that a little bit.

Brian Dewsnup^ Yes. Thanks, John. So yes, this -- we've seen and we've talked about this over the past couple of years where we've one, a lot of backlog and you're seeing that backlog migrate from backlog into the actuals. And so pushing up our ASPs.

But additionally, in 2025, we've had some tariff impact come into that as well as we sought to pass those through on kind of like a cost-neutral basis, but it has improved or driven up the ASPs.

And then, of course, the geographical mix has also had an effect where buses, generally speaking, in North America are a little bit more expensive in the U.K. So that mix effect is in there as well.

Cameron Doerksen^ Okay. That's helpful. And just on the motor coach market, obviously a very strong number of deliveries in the fourth quarter. You sounded pretty positive, I guess, on the public market demand for motor coaches, but a little bit of uncertainty, perhaps given the tariff impact here on the private market.

I'm just wondering what you're seeing maybe so far in the private motor coach market. Are you seeing an impact on demand? Just trying to sort of gauge overall in motor coaches, if we should expect that have continued to have a strong delivery number in 2026 like we saw in 2025.

Brian Dewsnup^ Yes. I think the underlying demand for motor coaches is still there and the kind of fundamental aspects of kind of North American travel and the economy and whatnot the demand is still there.

The recent kind of November increase in tariff, that's beginning to flow through the cost base of all of the OEMs. There's no domestic manufacturer of motor coaches today for the private market. And so what we're really seeing is the beginning of those tariffs in the private market and how that's going to play out in terms of how much of that is shared with the customer base.

But we're bullish on the market, all the fundamentals from a demand side are still there. So it's really just a matter of how do we manage through the tariffs and how much we perhaps absorb there versus how much we share with our customers.

John Sapp^ Yes. And Cameron, the only thing I'd add, we continue to be the only Buy American-compliant manufacturer coaches for the public market. So that continues to be kind of a good positive for us as we look at that market going forward.

Operator^ Our next question comes from the line of Daryl Young with Stifel.

Daryl Young^ I wanted to just get some thoughts around preliminary budgets or expectations for transit funding come the expiration of the two. Is there any details or any kind of inner workings that you can share with us around maybe what the magnitude of the next funding cycle might look like?

John Sapp^ Yes. Thanks very much, Daryl. Great question. We're obviously watching this close. We're very engaged where we can be in terms of ensuring that our voice is certainly is being heard and at the same time making sure that we're really getting a good feel in terms of where the sentiments are.

I would say, generally speaking, we've been encouraged by some of the commentary that's out there in terms of where the funding bill looks to be. We've had a lot of discussion on this.

I think there's good reason for continued optimism on it. To be honest, right, the fleets are -- it's clear, right? There's a lot of recapitalization effort that the bus operators are needing, their voice is certainly being heard.

And so as a result, I would expect that, that will continue to play through and as the -- this next funding cycle and the authorization cycle gets set up. So we're -- I would say that the other note I would make is that those decisions that are being now of course, are going to continue to build off the current year appropriation.

So we are in good shape in terms of the amount of backlog, right, that will continue to carry forward this year into '27 and beyond as different transit authorities to take advantage of the current funding sources that are there.

Brian Dewsnup^ Yes. The only thing I'll add, Daryl, is I think we saw a strong option conversion in 2025. So to John's point, I think that folks trying to get the last of the IJA in 2026. And to John's comment, that spending model matures in 2026, the act it can be spent in '27, '28, '29. So that will drive deliveries during that period as well.

Daryl Young^ Got it. Okay. And then just to go back to the supply chain. You spoke to obviously steel and aluminum and price pass-through, and that's great. But I'm just curious if you're seeing any availability issues of steel in the U.S. and maybe how many weeks of production you might have in terms of your steel inventory today?

John Sapp^ Well we have insight. Overall, from a steel standpoint, we feel good about where we're at from a supply chain standpoint. So we haven't focused on the weeks in production for that reason. We're generally good.

What I will say is that over from a supply chain rate readiness standpoint is that we're very focused on -- from a growth standpoint of ensuring that whether or not it's steel or anything else that's a part of our growth story from a supply chain that we really are ensuring that we have our looking far enough ahead, right, to ensure that we've got the readiness to be able to support that growth.

So there's been a significant amount of effort here in the first two months of the year to really ensure from a readiness standpoint, that all of our suppliers are coming along to be able to meet that growth with us.

The team has made an incredible amount of progress in that regard. I've been very pleased with what I've seen year-to-date on it. We've got some continued work certainly to do.

But what that helps us to do is identify where there are potentials for us to be able to go in and support those suppliers much earlier than it being in a reactive mode, right? So we're being extremely proactive around ensuring our supply base. Specific to the steel piece, we generally feel good about that. We don't have any emerging issues.

Operator^ Our next question comes from the line of Abe Landa with Bank of America.

Unidentified Participant^ It's Sean on for Abe. The first one I wanted to ask was could you outline the 2026 free cash flow bridge including cash interest, cash taxes, working capital and clarify which items sit below EBITDA versus within EBITDA cash costs or add backs?.

Brian Dewsnup^ Yes. That -- we've obviously put our guidance out for the first time. We've not gotten to that level of guidance.

I would say, just generally speaking, that we would expect kind of cash interest to be more in line in 2026 than in 2025. So cash interest and cash and interest expense to be more aligned there. So we had some timing differences because of the new high yield in 2025.

Regarding working capital and some of the other aspects there, we would -- we came into the year a little heavy from a working capital standpoint with some of the seating affected buses.

So we would expect that to normalize in 2026 and to be mostly offset with additional volume growth. So we wouldn't expect to see a significant up or down number from a working capital standpoint.

We'll get more efficient and we'll burn through some of those vehicles and some of that work in process, but we also have volume increases to offset that. So I think those are kind of the primary comments, and we did give guidance on CapEx.

We expect most of that to be cash-based CapEx and the leases year-over-year, we would expect to be relatively flat. So I hope that helps in terms of putting together the model, but we really haven't given any more kind of guidance around that for 2026.

Unidentified Participant^ I appreciate that. Can you outline the expected uses of the free cash flow?

John Sapp^ Yes. I think we've talked earlier that we're pretty singularly focused on reducing our leverage ratio. We do expect to get near the end of the year, we expect to get down into that 1.5% to 2.5% range.

So probably more closer to the upper end of that range. And then we'll begin to have productive conversations internally about capital allocation and things like that.

But we're really focused on debt pay down at this point. And I think you'll see that as a recurring thing throughout 2026. And then as we turn towards '27 and beyond, we'll start opening up the aperture on other uses there.

Unidentified Participant^ I mean given the USD267 million drawn on the revolver and USD338 million of convertible debentures due January 2027 and bonds callable in 2027 and 2028. Other debt instruments that you're prioritizing for repayment? And how do you plan to address the remainder over the near to medium term?

Brian Dewsnup^ Yes. Yes. So you outlined the debt stack fairly well there. I think -- as we look at that, we do have the convertible debentures that come due in January of 2027.

So that's kind of top of mind in terms of how do we deal with that, and that's something that we'll look at we're looking at now and we'll come up with a plan in the next few months on that.

Beyond that, in terms of debt pay down, the revolver would be our first priority. That's the easiest one to do. There is some -- there are some prepayment penalties, if you will, with the high yield.

And so we're not really looking at that one at that point in time or at least right now we've got the revolver to be able to pay down. And of course, we've got the convertible debentures to deal with as well. So those are the two components we'll probably focus on more.

Unidentified Participant^ And then can you update us on tariffs and aluminum inflation exposure including pass-through pricing, mechanics, customer discussions, alumina as a percentage of sales, direct, indirect and any potential margin impact?

Brian Dewsnup^ Yes. I think the question, like I didn't get the whole thing. I think it was around tariffs. And could you just repeat that, please?

Unidentified Participant^ Yes. I was just curious about tariffs and aluminum inflation exposure like whether or not that's pricing that's passed through, customer discussion, aluminum as a percentage of sales, like market impact.

John Sapp^ Okay. Yes. Thanks, Sean. Overall, for us, in terms of tariff, we have a really good execution plan that we continue to leverage from '25. We'll continue carrying that forward in terms of '26.

It's a very holistic approach in terms of how we manage and execute through tariffs -- and all of that, of course, is factored into the guidance that we've shared and that we're going to be able to continue to execute on that.

What's out there and available? Certainly, we have contractual protections from a tariff standpoint that ensure our ability to collect. And then also we have additional things we can do from a pricing standpoint and others that ensure that where we see cost increases that we're able to manage through it and obviously commit to the guidance that we've provided based on the tariffs that we know here as of March 11.

Operator^ Our next question comes from the line of Tim James with TD Cowen.

Tim James^ Great. Thanks very much for the time this morning. My first question is just looking at the U.K. market in Alexander Dennis.

I'm just wondering if you could talk a little bit about -- I know it's been a challenging market there, a lot of petition.

-- you've had some new product launches. How do you see the products that you've got in that market now aligned with customers are actually ordering? And I'm wondering maybe about some of the orders that have gone away from you, any sense you can provide for what is maybe the key point there, why those orders are going away?

John Sapp^ Yes. Thanks, Tim. It's a great question. Let me talk first about our products. I had the chance to go visit the team over there, see the products firsthand and have been extremely impressed with what it is our Alexander Dennis team does every single day to deliver a great product to the customer.

And that includes some of these new releases that you've seen have been really certainly impressed with also how those releases are continuing to be accepted or recognized by the customer in terms of what they've done.

The -- it certainly is a competitive environment, as you know. And that's something that we've highlighted here previously different than what we experienced in terms of North America which has certainly requirements around localization, et cetera.

The U.K. is still evolving in that sense or evolving or developing potential new pathways for that. And so we're going to -- we're very engaged with the appropriate folks in the U.K., we've had great support in terms of that engagement certainly from Scottish authorities to be able to support the conversations there.

But so we'll continue to ensure that we stay very focused with it. But it is, as noted, a competitive environment. What I would also say is that team is doing a terrific job in terms of really ensuring that it manages the situation appropriately and watches very closely. But we are seeing the wins.

We see ourselves being able to compete from an AD standpoint, but it is more competitive, and that forces us to -- or sorry, forces the business to really push hard to ensure that we're getting the EU volumes that we would expect.

But as noted, competitive environment, a lot of tailwinds certainly that we have from a product standpoint, but a high area of focus for us here in '26.

Tim James^ Okay. Great. My second question, just looking at the receivables increase in the fourth quarter. You noted it was quite significant. I believe there was a reference to sort of volume that went out in December.

Was this a particularly sort of December heavy delivery fourth quarter? Is that why it increased so significantly? Is there any other kind of color you can provide around the receivables and the increase in the fourth quarter?

John Sapp^ Yes. And I highlight the note earlier that we shared around some of the seasonality, if you will, around how our deliveries occur. Certainly, Q4, I think, historically, has been that way, certainly was in '25. And so that did create that receivable impact, I'll ask Brian to expand a little further on that.

Brian Dewsnup^ Yes. So good question. Certainly something that we're -- that we noted as well. We did have a little bit heavier kind of December in '25 than we would have been '24. And then, of course, the increase in ASP also drove higher receivables as well. Some of those things contributed.

We are pleased with the collection of that as we've started through Q1 as well. So we think that will normalize as we get into the first quarter, and we're happy with how that's gone.

Operator^ Our next question comes from the line of Jonathan Goldman with Scotiabank.

Jonathan Goldman^ Maybe we can just circle back on the pricing conversation, a lot of puts and takes there. You talked about mix and tariffs potentially being headwinds. But do you expect net pricing to be accretive to EBITDA margin in 2026.

John Sapp^ Yes. So great question. And if you've kind of followed the discussion from kind of the hyperinflation base of kind of 23, 24, we've been talking a lot about the pricing and margins in the backlog. And we've seen that come in '24 and '25.

We would expect that we will see some continued improvement in 2026. However, I would say the volume story is becoming your story relative to our guidance than pricing is at this point.

Jonathan Goldman^ Okay. Fair enough. That's good color. And then I know it's early days John, but have you seen any opportunities to maybe rationalize the number of SKUs and more broadly to optimize the portfolio of the entire business?

John Sapp^ Thanks, Jonathan, and it's a great question. It's -- certainly, our focus right now in mine in the first couple of months has been really around delivering on what's in front of us here in terms of '26.

And certainly, with the what we have in terms of this excellent portfolio of products. Your question, I think, really goes towards some of the strategic conversations that we will -- that my focus will shift towards here in the coming months. And so I don't have a view in terms of your question yet.

But certainly, we'll always be thinking as a leadership team around what do we do in terms of managing and ensuring that we have a portfolio for the long-term, that's really built for long-term success.

And so that's just a normal course of us as a leadership team and the responsibilities we got there. So not a great answer yet to your question, Jonathan.

But certainly, what I will just share is overall that I will always, as I sit in the seat, be thinking about how we ensure for the long term that we've -- that we're adjusting and managing our portfolio appropriately.

Jonathan Goldman^ No, fair enough, and I appreciate it. It's still early days. And maybe just one more housekeeping one for me. The timeline for deleveraging to get back to the 1.5 to 2x or 2.5x range. Did you say that was a 2027 event or an exit rate for 2026.

John Sapp^ Yes. We think it as at end of 2026, early 2027 timeframe. So we're not nailing down exactly when that will occur. But certainly, we expect that here in the next 12 to 24 months.

Operator^ Our next question comes from the line of Abe Landa with Bank of America.

Unidentified Participant^ It's Sean Maher again on for Abe. We had just two more quick ones. Is there any further updates that you can provide on the integration of the American Seating business? Like performance-wise?

John Sapp^ Sorry, the last part, just having a little trouble hearing you there, Sean. So how the integration is going relative to the AMSECO business.

Unidentified Participant^ Yes. We're just curious for the integration into the business.

John Sapp^ Yes. Overall, I shared a little bit earlier. I'd say we're very pleased with the progress that the JV has made.

It has been an excellent partnership with us and our JV partners were very aligned in terms of where it needs to go and very proactively working through to ensure the process improvements, the material execution, all of that and getting the future of that business set up and established.

So what I would say is, currently, we feel really good about it, the trajectory it's on in terms of the very near-term recovery. And frankly, being able to support us in the long term. So I think that's where things are at really with the MSC business right now.

Brian Dewsnup^ Yes. And the only thing I'd add, Sean, is, yes, we definitely view it as an investment. So we're actually not integrating it into our operations.

As John mentioned, we've got this joint venture structure that overseas AMSECO and the production -- and our focus is on getting that business stable, getting it healthy. And then obviously then we'll look at what the longer-term future is for AMSECO.

But we definitely look at that as an investment. That's why we treat it that way on our financials. But as John mentioned, very pleased with what we've seen so far. I'm very pleased with how the JV has been working.

Unidentified Participant^ Okay. And the last one, can you give us an update on the expected timing of battery recall cash outlays across 2026, 2027 and beyond.

Brian Dewsnup^ Yes. I think in the Q3, I don't think we included in this deck, but in the Q3 deck, we included a timeline of expected cash expenditures and nothing's materially changed from that Obviously we have -- as disclosed in the financials, we've received some cash in.

We are on the timeline to have the buses repaired in that 18- to 24-month period that we had originally said. And then, of course, the battery cell usage would be a little bit trailing after that, but the development that's required in order for us to incorporate those battery cells into future vehicles. That timeline is preserved as well. So we don't really have an update to what we disclosed in Q3, but we are on that plan.

John Sapp^ And Sean, one thing I would add is that we feel really good about where the campaign is set, coming in with fresh eyes, myself and evaluating the program and the plan for execution. This obviously has been several months that the team has been working through to have us position to be able to go execute on this.

It's been well communicated with the customer as well understood there. And frankly, I am really pleased with the leadership and the team that we've got in place to go execute the plan overall and within the timeline that Brian just described.

Operator^ And I'm currently showing no further questions at this time. I'd now like to hand the call back over to Stephen King for closing remarks.

Stephen King^ Yes. Thanks, everyone. Thanks, [Shannon], and thanks everybody, for joining this morning. Thanks for all the questions. We really appreciate it. And as always, if you need materials on our -- they're all on our Investors section of our website. And we'll look forward to talking with everybody again in early May.

John Sapp^ Thank you all.

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