

**NFI (2025 Q2 Results)**  
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**Corporate Speakers:**

- Stephen King; NFI; Vice President, Strategy & Investor Relations
- Paul Soubry; NFI; President and Chief Executive Officer
- Brian Dewsnup; NFI; Chief Financial Officer

**Participants:**

- Chris Murray; ATB Capital Markets; Analyst
- Daryl Young; Stifel
- Jonathan Mossiagin; CIBC
- Cameron Doerksen; National Bank
- John Gibson; BMO Capital Markets
- Jonathan Goldman; Scotia Bank

**PRESENTATION**

Operator^ Ladies and gentlemen, thank you for standing by. Welcome to NFI's Second Quarter 2025 Financial Results Call. (Operator Instructions) Please be advised that today's conference is being recorded.

And I would now like to turn the conference over to Stephen King. Sir, please go ahead.

Stephen King^ Thank you, Michelle. Good morning, everyone. Welcome to NFI Group's 2025 Second Quarter Conference Call. Joining me today are Paul Soubry, President and Chief Executive Officer, and Brian Dewsnup, Chief Financial Officer.

On today's call we will give an update on our quarterly results, highlighting year-over-year improvement across numerous financial metrics, the strong demand environment for our products and services and another increase to our backlog. We'll also provide an update on the various non-recurring and unusual items that impacted the quarter and recap our outlook.

This call is being recorded, and a replay will be made available shortly. We will be referring to a presentation that can be found in the Financials and Filings section of our website. As we move through the slides via the webcast link, we will call out the slide number for those on the phone.

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

We advise listeners to view our press releases and other public filings on SEDAR for more details. 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, our reporting currency, and all amounts referred to are in U.S. dollars unless otherwise noted.

Slides 3 and 4 provide a brief overview of our company. NFI is a global independent bus and motor coach mobility solutions provider. We offer a wide range of propulsion agnostic buses and coaches on proven platforms, and we hold leading market share positions in transit and coach markets. More detailed information is available on our website.

Slide 5 provides some brief insights into NFI's products and geographic mix and other milestones. I will now pass the call over to Paul to provide an overview of NFI's results for the second quarter.

Paul Soubry^ Thanks, Stephen. Good morning, everybody. Thank you for joining us today. Second quarter was another strong continuation of our recovery. We expected -- we're very excited to continue to see this momentum as we move through the remainder of this year. It was a busy quarter across our business as we successfully completed the refinancing of our first and second lien debt.

We announced the consultation process for our Scottish manufacturing operations. We work with our customers in supplying or navigating the constant change in U.S. tariff dynamics. We lowered our inventory in complete buses using seats that were as a result of improved seat supply. So today's call will discuss these events and highlight a number of non-recurring impacts we experienced in the quarter. Brian will give you quite a bit of detail.

So I'm on Slide 7 now and it's a summary of our Q2 results. Starting with demand. In the first quarter, we recorded new orders of 822 EUs with 95% of them being firm orders. This highlights the continued strength in the demand driven by support of government funding, both in Canada and the United States.

Our total backlog comprised of firm orders and options now totaled 16,198 equivalent units worth USD 13.5 billion. Our Q2 LTM book-to-bill ratio was 119.9% and our option backlog conversion rate remained steady at 74.9% on an LTM basis. Strength in our demand metrics is primarily driven by North American public transit and public motor coach operators. Our Q2 '25 results also demonstrate a positive trajectory with a 19% year-over-year increase in quarterly adjusted EBITDA, a \$7.6 million improvement in adjusted net earnings and a 7.9% increase in return on invested capital.

On the bottom of the slide, you can see our total liquidity is now at \$326.7 million with a significant increase driven by our recent refinancing which Brian will recap again later on this call.

One other significant item during the quarter was our announced -- our announcement that Alexander Dennis had launched the required government formal consultation process with the government partners, the union partners and our other stakeholders focused on consolidating production facilities in the U.K. to lower our overall manufacturing costs of Alexander Dennis.

The driver for this activity is the rising number of U.K. and Scottish bus procurements being awarded to non-U.K.-based bus OEMs and primarily from China. These importers have a significant cost advantage relative to domestic U.K. manufacturers as there was no requirement to support the local economy and/or create or retain local jobs.

We are working closely with the government partners in both Scotland and England to address this uneven playing field and remain optimistic that there will be increased focus on domestic manufacturing in upcoming competitions and specifically where taxpayer funds are involved in those procurements. Although government discussions continue, we are focusing on Alexander Dennis' cost will improve our competitiveness. We feel that actions that we've taken and that are continue to work on through this consultation will leave us in a much better position for 2026 and beyond.

Slide 8 shows our supply chain health from the end of 2020 until now highlighting our high impact and high and moderate risk suppliers. We currently have just one company, it's the same seat company we've had for a while, that we consider high risk, high impact. This is down from the peak of 50 concerned suppliers, high-risk suppliers in 2022. This supply performance reflects the fantastic and ongoing work of our sourcing, procurement and supplier development teams who are actively working directly with suppliers to improve delivery performance to our facilities.

Slide 9 provides an update on this specifically on the seat disruption supplier or this disrupted supplier. We've seen progress over the past few months with a number of New Flyer buses built yet missing seats now down to 56 as of July 18. This is a sharp decrease from the peak in November and a decrease from when we started reporting this issue last May. The supplier is still working on their recovery plan, and we will continue to maintain active and deep engagement until the situation is fully resolved.

As we reported before, a new Buy America compliant seat supplier began delivering seats to our production lines during this quarter. We expect them to ramp up their deliveries through the second half of the year, which now gives the market three seat suppliers helping to diversify risk going forward for this critical safety component on a bus. It also lowers our reliance on the challenged supplier as we increase our production rates.

I'll turn it now over to Brian Dewsnap to discuss our results in more detail. Over to you, Brian.

Brian Dewsnap^ Thanks, Paul. I'm now on Slide 10. We'll quickly recap the recent refinancing transactions that we completed in the second quarter. We now have a new 4-

year first lien facility with \$700 million in total borrowing capacity. The secured facility replaced and consolidated our previous North American and U.K. facilities into one and was completed with the syndicate of 10 supportive banks. In June, we announced the completion of our new 5-year \$600 million second lien notes. This was our first ever issuance of high-yield debt in the U.S. market and we were pleased to see strong demand for the notes from American, Canadian and U.K. debt holders.

Through this process, we received our first-ever credit rating obtained a BB- rating from S&P Global and a B1 from Moody's. Both agencies commented on our stable outlook and potential upside from backlog execution and deleveraging. Net proceeds from the 2025, second lien debt were used to fully repay our existing higher-interest Second Lien facility, a portion of the 2025 First Lien facility and other existing debt fees and issuance expenses. The goal of these new facilities was to provide greater visibility, increased liquidity, improve covenants and lower our interest expense. We're targeting liquidity north of \$350 million, which, as Paul mentioned, is already at \$326.7 million and a total leverage ratio including all debt of 1.5% to 2.5%.

On Slide 11, I want to explain the impact of several nonrecurring and unusual expenses that impacted our second quarter earnings. As you can see on the chart, we reported a quarterly net loss of \$160.8 million with a loss per share of \$1.35 and which normalizes to adjusted net earnings of \$10.7 million or \$0.09 a share.

We've categorized the major items, which I will summarize. Starting with the 2025 refinancing, and had the following impacts, all of which are net of tax. A \$7.5 million early repayment fee associated with the 2023 Second Lien facility, a non-cash loss of \$29.8 million on debt extinguishment associated with the refinancing activities undertaken in 2023 and a net unrealized gain of \$9.9 million related to prepayment options in the Second Lien debt.

The planned restructuring at Alexander Dennis in the U.K. resulted in a \$10.2 million restructuring provision for employee reductions, a \$10 million non-cash goodwill impairment and associated \$80.9 million non-cash intangible asset impairment of \$4.3 million non-cash impairment of property, plant and equipment and a \$34.4 million write-down of deferred tax assets for the derecognition of tax assets associated with the Alexander Dennis U.K. operations. The impairments and the tax write-down reflect downward revisions to the longer-term financial projections for Alexander Dennis.

Separately, we also had a \$6.7 million adjustment related to seat supplier disruption, reflecting the impact on manufacturing, labor and overhead and the impact of liquidated damages from certain customer contract delays. Our adjusted net earnings of \$10.7 million is an improvement of \$7.6 million or 245% from our 2024 Q2.

On Slide 12, we recap quarterly deliveries. Transit deliveries were primarily down to the lower U.K. deliveries, reflecting the competitive market environment. In North America, deliveries were up year-over-year, but were still negatively impacted by seat supply disruption. Coach deliveries were down due to lower private sector deliveries in the

quarter, mostly related to timing with expectations of a strong second half of the year, which is consistent with the seasonal nature of the business.

Reflecting our improved backlog, we experienced a 27% year-over-year increase in the average selling price for heavy-duty transit buses and a 20% increase in average coach selling price. We had another record quarter for low-floor cutaway bus deliveries with 197 equivalent units, which is up 30% year-over-year. The average selling price was up 10% with demand for the product continuing to be strong.

Turning to Slide 13. After markets saw a slight decrease in Q2 and with gross margins of 26.4%. This was down year-over-year, reflecting a unique sales mix and an expected reduction in program-related revenue in North America. A reminder that customer program revenue was elevated in 2024, driven by certain large-scale mid-life retrofit projects. In the Manufacturing segment, gross margin saw an increase year-over-year going from 8% to 10.6%, even with lower total deliveries. This reflects an improving backlog profile flowing through quarterly results in a geographical mix with lower U.K. deliveries.

Slide 14 walks through year-over-year changes in adjusted EBITDA with our reporting segments. Manufacturing EBITDA was up by \$18.6 million, reflecting favorable sales mix and improved pricing, similar to our previous quarter, an adjustment was made to recognize the adverse impact associated with seat supply disruption in North America. Our aftermarket segment saw a decline in EBITDA and driven by reduced sales volume primarily from the North American program revenue as previously discussed. Corporate adjusted EBITDA declined by \$2.8 million, primarily due to negative impacts of foreign exchange including a lower U.S. dollar and higher SG&A expenses.

Turning to Slide 15. You can see LTM adjusted EBITDA for both manufacturing and aftermarket segments from 2021 to 2025. Both segments have seen strong improvements. Our Manufacturing segment recovery has been especially notable with a \$109 million improvement year-over-year on an LTM basis.

On Slide 16, free cash flow was positive with a strong increase driven by many of the same items that impacted adjusted EBITDA. We invested \$44.2 million in working capital in the quarter driven by higher accounts receivable and finished bus inventory. This was offset by increased -- increases in deferred revenue associated with milestone payment structures now in place in North America transit and public Coach.

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

Paul Soubry^ Thanks, Brian. I'm now on Slide 18. As we look at the rest of 2025 and beyond, we project that NFI will continue to grow revenue, gross profit, adjusted EBITDA, free cash flow, return on invested capital and net earnings. I'll walk you through some key factors underpinning this continued momentum and our expected growth and comment on the key risk factors in our operating environment.

On Slide 18, we had 822 EUs in the quarter, helping drive 6,299 EUs in LTM orders. Our North American production slots remain in high demand with slots sold well now into 2026 and options going all the way out to 2030.

On Slide 19, you can see the makeup of our backlog of over 16,100 equivalent units, of which 38% are firm and 62% are options. The firm orders provide significant visibility into our H2 and first quarter two026 deliveries while the options offer runway over the long term. Black line represents the total dollar value of our backlog.

Over the past 3 years, NFI's backlog has grown by \$8 billion, showcasing the significant and continuing demand for our products. Similar to the first quarter, we saw higher new orders for internal combustion engines -- internal combustion engine buses, which has led to a slight decline in zero-emission percentage of our total backlog, which now we think reflects the new U.S. administration's platform and customer procurement activity.

Our total backlog and firm option profile is displayed on Slide 20. The chart shows the increase in average sales price or ASP per equivalent unit in our total backlog including both firm and total options. The ASP has increased for both heavy-duty transit buses, which is the dark blue line -- sorry, in dark blue and the motor coaches, which is in light blue. Year-over-year, average selling price for heavy buses was up 2.7% and up 68% since 2021. ASP for motor coaches was up 25.2% and 54.5% over the same time periods. We saw a slight increase in both transit and coach backlog ASP, average selling price this quarter with a strong sales mix of new contracts that were awarded to NFI.

Overall, these higher selling prices will continue to translate into our income statement over time. We saw this in the first half of 2025 and expect more improvement with approximately 60% of our annual adjusted EBITDA coming in the second half of this year.

The bidding environment remains strong in North America, which is reflected in our bid universe on Slide 21. We ended the quarter with a total active bids of 5,855 equivalent units. This includes 4,144 in the bids submitted and another 1,100 -- sorry, 1,711 bids in process. The black line on the chart shows new awards to NFI. We saw some decrease from the previous quarter, which primarily is a result of timing of new proposals and the (inaudible) U.S. funding being released in May of 2025.

I'll point out that the correlation between bids submitted in the light blue and contract awards typically have a lag of a few quarters from the submission of the award. Our 5-year expected public bid forecast, which is compiled from the customer fleet replacement plans remains very strong at 22,769 equivalent units. This demand is driven by both available funding and the increasing fleet age, which nearly half of the North American bus fleet in service is now beyond 12 years of age.

On Slide 22, I want to highlight the positive funding announcements from the U.S. administration for the fiscal year of 2025. The FTA released apportionments for \$20.6 billion in total funding with dedicated bus programs remaining at the same levels as we

saw in 2024. This strong funding support should make for another positive year in the low or no emission grant program where NFI was the name partner on nearly 340 million awards in 2024.

Slide 23 shows our book-to-bill and option conversion ratios. NFI's overall option conversion ratio has improved significantly since the low in 2022, coming in again at 74.9% on an LTM basis. This is driven by increasing new order volume, exercised options and our improved competitive positioning in the overall environment.

Slide 24 reflects our guidance ranges for key metrics for 2025, which we have once again reaffirmed. We continue to project revenues of \$3.8 billion to \$4.2 billion to drive adjusted EBITDA ranging from \$320 million to \$360 million for this year. The '25 guidance ranges for the selected financial excess provide take into consideration our year-to-date performance and our current outlook and specifically, our well-defined master production schedule. NFI's 2025 guidance range does not include any material impact from tariffs or any further changes resulting from U.S. policy developments.

On Slide 25, we provide our latest views on the macro tariff environment which, as we saw yesterday evening, continues to be very fluid. During the quarter, we were directly impacted by tariffs on the imports of steel and aluminum to the U.S. and Canada and tariffs associated with the imports of certain goods from outside of North America that is used in our Canadian U.S. manufacturing and aftermarket businesses.

In May we saw an increase in the number of our suppliers issuing letters and invoices to NFI with updated prices reflecting tariffs as we begin to build this into our pricing for our new contracts and aftermarket sales. We expect the most significant tariff impact on NFI will be the indirect tariffs applied to component parts and raw materials imported in the U.S. by our suppliers, which are then used to build products and components that we buy and install in our vehicles.

A reminder that buses and coaches and shells continue to move across the Canadian-U.S. border continue to be tariff free as they comply with the U.S. MCA agreement. For existing contracts, we are working closely with our customers to make them aware, show them our details, negotiate and record current and as amended by the U.S. tariff price changes as we expect to pass on our contractual regulatory change clauses. There is some risk that we may not be able to pay recoup all tariff costs, and there could also be cash flow timing impacts as we await customer reimbursements for tariffs that we have paid.

On an overall basis, though, we remain highly confident that tariffs will mostly be a pass-through item for NFI. We're actively watching the U.S. and Canadian trade discussions, and we'll evaluate any changes of any legislation that comes from this and we'll continue to forecast that going forward.

Closing on Slide 26, a few comments to recap, and then we'll open the line today for questions. The first half of this year provided significant momentum our refinancing effort provided as capital structure as we execute on our record multiyear backlog. Our

seat supply, while still painful, is improving. Margin profile increased year-over-year, and we saw significant improvements in adjusted EBITDA and our return on invested capital.

NFI's total backlog of \$13.5 billion provides significant opportunity our high option conversion rate and strong book-to-bill ratios remain supportive of both our near-term forecast and our longer-term outlook. This quarter, NFI delivered our second highest zero-emission bus deliveries in our company history, which reflects the strength of our product offerings and our operational performance. NFI's aftermarket business, while slightly down in the first half of 2025 continues to be a very strong contributor, providing steady recurring revenue streams and a solid margin foundation and solid free cash flow generation.

As you've heard on this call and previous calls, the U.K. market demand for Alexander Dennis continues to be behind our -- be behind our expectations. We're taking actions there that will lower our costs and improve our competitiveness. Full year, we expect declines in the overall U.K. market deliveries, but we have several active procurements underway that should support our 2026 performance. The Scottish government has recently committed to exploring all viable options to support Alexander Dennis' Scottish manufacturing operations.

We will continue to engage with our government partners in both Scotland and England with the focus on our people and cost management as we complete the required consult consultation process and as we continue to support our customers. While the U.K. poses an overall challenge, that market represents approximately 15% of our total quarterly revenue and generates lower margins in our North American business. The aftermarket business in the U.K., however which is reflected with NFI's aftermarket segment totals continues to perform well based on our installed base.

The overall pivotal environment in North America remains fluid with changing dynamics related to trade, tariffs and funding. As I've mentioned before, we were very pleased to see the U.S. administration's focus on advancing numerous funded projects through its Americas building against campaign and through the release of the 2025 FTA apportionments. We continue to track trade developments and we'll continue to take all actions possible to ensure an appropriate response to tariffs. While there will be some headroom -- headwinds, sorry, our domestic production, nimble aftermarket position in pricing, strong backlog and the new contractual provisions that we have in our manufacturing contracts leave us feeling very well positioned for a solid second half in 2025.

With that, I'll now open the line to questions. Michelle, please provide inductions to our callers. Thank you.

## QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) And your first question will come from Chris Murray with ATB Capital Markets.

Chris Murray^ The first question, maybe just thinking about the ramp in the second half. Thanks for the update on the seat supplier. But I guess what I'm trying to maybe understand is sort of two-fold. One, can you maybe walk us through and maybe even some granularity how the plan looks for the next, call it, couple of quarters? And if you can talk a little bit about the rest of the supply chain outside of seats. And if there's any additional update on giving some seats other than like where you are like as of today even beyond July, that would be helpful.

Then, Brian, if you can just maybe remind us what the expectations are for leverage by year-end? That would be great.

Paul Soubry^ Thanks, Chris. That's much questions. But first, let's start with overall supply chain health. The chart that we showed today we're kind of down to one high-risk supplier that continues to be that seat supplier that has been recovering and we continue to work with. I will tell you that, let's call it, a year ago, that supplier provided almost 60% of our seats. We're now through customer choices and through managing as best we can in the back half of the year, that supplier is down to maybe 30% or 35% of our seats.

So our total reliance is less and their performance continues to get better. In terms of the other suppliers, across our overall business. If you walk into our production facilities and you look at the metrics, boards and so forth, and you look at the roll-ups we see, across the company, we're now somewhere in the 99.5% to 99.6% range of parts available in station on time. And now that's kind of where we were pre-Covid, of course Covid and supply chain held and all the dynamics caused tremendous disruption to that where that number dropped into the early 90s.

Of course missing one part is one thing, but missing key parts that have cascading issues. If you don't have the seats, you can all the stations and so on and so forth, has massive production impact. So our labor efficiency is up as a result of really strong performance. We've talked a little bit today and in previous calls, beefing up our sourcing teams, our procurement teams added some really solid team members and then, of course adding a significant resource to our vendor development or supplier support teams has really helped that performance level. So we're in a -- we're back to pre-Covid in terms of the health of the supply chain. And I'll just always caution highly customized, small batch, variable products will always, by definition, have complexity to get to 100% supply chain.

In terms of the production, and you noted kind of the second half lift over the first half, with the exception of, say the private market in North America and maybe a little bit of the retail private coaches in North America, a little bit of retail in the U.K. All of our slots are effectively sold through the rest of the year, and now we're booking well into 2026.

So I've used the expression before, but it's not -- to some extent, we have to sell retail units, but this is very much around execution of what's already under contract, what we've already done the engineering on and so forth, and we're working on supply as opposed to worrying what we're going to sell. So there is some retail dynamics in the Motor Coach business and a little bit of the Alexander Dennis business. The rest of the business is we're feeling very comfortable of. I'll hand it over to Brian now to the questions you had for him.

Brian Dewsnap^ Yes. Thanks, Paul. Yes. With regards to leverage, we're -- I think at the end of Q2, we were 4.9% if you include the converts, so 4.9% total leverage. Then as we've said a number of times, we're targeting 1.5 to 2.5, and we're working toward that. We don't expect to get there by the end of the year. We expect it will be sometime in likely in 2026 that we'll get into that range.

Chris Murray^ Okay. That's helpful. Then just a couple of quick ones on top of that. On corporate EBITDA was a lot higher than I think we've seen it in some time. Normally, there is kind of like a plus or minus de minimis number. So I guess two things. One, was that tied to a lot of the refinancing or restructuring issues and just the magnitude of that? And should that settle down? And how should we think about that on a go-forward basis?

Brian Dewsnap^ Yes. So a couple of things in this quarter. We did have some FX that got to us there. The other piece is we do have some exposure through some of our comp programs to our own stock price actually. So with the depreciation in Q2, we had some added expense there just from our internal comp programs. And so we would expect second just expect in the second quarter that we had a little bit more expense than we would expect.

Chris Murray^ Okay. Just what was the amount of the stock-based comp roughly?

Brian Dewsnap^ I don't have that figure in front of me now but it was a chunk of the year-over-year increase of -- that we saw, which I think was around \$3 million. I think most of that was related to the comp program.

Chris Murray^ Okay cool. Last question, just really quick. There was a note in the press release about the fact you've taken over operation of the, I guess the Alexander Dennis' product at (inaudible) I guess two questions on that. Can you just maybe give us more color on what that is or why that's happening? And what does that kind of say about what you're seeing in terms of demand on that Double Decker product in North America?

Paul Soubry^ Great question, Chris. And (inaudible) it's a fairly small part of the business, so we didn't sell a lot of time or communicate talking about it, just a little context. There's about 1,000 double deckers that have been sold and operating in North America from Alexander Dennis over the years. The first couple of approaches to that when ADL showed up in North America 15 years, 20 years ago was to use build partners as they do in the U.K. and as they do for certain things in the Asia Pacific region.

Of course that facility -- that strategy then translated to when we acquired Alexander Dennis in 2019, they were operating their own facilities in the Elkhart, Indiana area. When Covid kicked in, the demand dropped dramatically for high-capacity vehicles. So we've made the decisions to rationalize the facility in Middlebury, Indiana as well as there was a chassis facility in Toronto. Demand has recovered, and we originally weren't sure the pace at which it will recover.

Now that's two issues. Certain new customers wanting double decks in their fleets as well as the agent of the installed feet and customers wanting to replace them. So we made the decision to set up BRM to do this in Las Vegas. It was adjacent to or down the street from facility they already had BRMs, parent company. Big rig collision is a repair-oriented facility and they wanted to get to manufacturing.

So we worked on as a partnership for about a year. That supplier couldn't deliver at the pace performance that we wanted. We made a deal to just absorb their people. We bought their work in process associated with it and put in some kind of a transition contract with them. As of about a month ago, we now are operating that facility, demand and order book continues to grow both for double-deck diesel buses, which we're building today and we're starting to build an order book for double deck electric buses in North America.

So it's not massive. There's, I don't know 120, 130 people there. It's a brand-new facility. Our supplier partner. We never really set it up and operated the way we wanted. It's now ours, and it's becoming and looking like very much like an NFI facility. And quite frankly, the outlook there is quite positive.

Operator^ And the next question will come from Daryl Young with Stifel.

Daryl Young^ Just wanted to touch on the working capital in the quarter and maybe a little bit more color on that \$40 million investment. I was under the impression you'd be a little bit more neutral or maybe even positive working capital this year, but just curious what the outlook is for the remainder?

Paul Soubry^ Yes, Daryl. So we -- working capital will continue to fluctuate in the business. The normal course we would look to build a little bit of working capital over the course of the year. Then with the private market and a little bit in the U.K. private -- sorry, private North American coach market and a little bit in the U.K. have some seasonality where the inventory build in the middle of the year will then be relieved at Q4.

We have had some additional noisiness there with some of the seating issues we've had -- so we did release some in Q1, and we built a little bit back in Q2, but that would be the normal pattern would be kind of Q1, Q2, Q3, a little bit of growth and then relieve that in Q4, which -- and we do expect that we will see a reduction in the fourth quarter this year.

Daryl Young^ Okay. And for the full year, are you anticipating being relatively neutral or will there be working capital investment?

Paul Soubry^ Yes. I think as you would remember, we've talked about how we entered 2025 a little bit heavy. So despite the higher volume we expect in 2025, we do expect to be about neutral from a working capital standpoint, even with that volume increase between '24 and '25.

Daryl Young^ Got it. Okay. Then around the tariff commentary you gave a lot of great details. Just trying to flush out how real the risk is in the short term that some of your -- maybe your margins are impacted or your cash flow is impacted such that, this is a real meaningful issue versus be aware, no one unknown type of thing.

Paul Soubry^ Yes. It's a good question. Of course it's changing every bloody day depending on the impact of what we buy, where it comes from and the tariffs the U.S. applies to these different jurisdictions. So as we said in the script, we've been dealing with the direct steel and aluminum tariffs. It's not massive, but we've been managing that and embedding in our price and then there's no issue there or we don't foresee an issue.

The indirect taxes, as I alluded to, are really the biggest area of concern, because we see that through a supplier invoice. Here's \$8 for the windshield wiper, but then there's an extra portion of invoice that relates to the tariff. And of course when the customer or the supplier provides that to us, we're paying them on certain terms we are current with all of our suppliers, but there could be a lag between when we're paying that and when our customer finally pays us for the tariff that we invoice. We are invoicing our customers separately.

So it's -- here's the price for the bus and there's a secondary invoice for the calculated tariffs. We've hired one of the big accounting firms to help us audit our methodologies and our calculations and so forth that we can present that to the customers. We've had numerous communications with the customers. There is no question, some of the customers have agreed with the methodology and are starting to pay the tariffs as required.

Some of them are asking for more detail. It's very difficult to be able to say to customer ex or why this specific dollars for that specific part on your bus on this specific day. So there's quite a thorough process of calculation and so forth. We have that had a customer blatantly say "I'm not paying your tariffs", but there was a negotiation and a dance and communicated that goes with that.

As I kind of alluded, there could be a month or 2-month of working capital of the tariff portion that gets delayed from when we pay it to when we actually get paid. At this point, we have no indication that we're not going to get paid the tariffs, and that's why we referred to it in our script here is kind of a flow-through type dynamic. But we are cautious, and we are in our own minds, managing our way through the whole tariff dynamic as it relates.

And of course as it changes. A tariff yesterday was x on one country and now it's y, so the parts that we have, have a certain tariff. The parts that we bring in next week will have a different tariff for the same bloody part. So you can just imagine how fluid the thing is. We are feeling very comfortable that it will, as I said before, be a flow through.

Daryl Young^ Got it. And presumably, with \$340 million of liquidity, you're feeling very good about no real cash.

Paul Soubry^ Good question about that. The sheer size of the tariff, I'll just give you a macro context. If we annualize the tariff as of before yesterday before last night, for all of that we buy that comes through indirect, there's somewhere in the neighborhood of \$40 million to \$60 million tariff run rate exposure or value. So the impact in the next little while could be \$10 million or \$15 million in terms of total tariffs. It's not going to be -- we need \$200 million to fund the tariff dynamic for a period of time.

Operator^ And the next question will come from Jonathan Mossiagin with CIBC.

Jonathan Mossiagin^ If I'm not mistaken, this is the first time since early 2021 that you've had only one or fewer high-risk severe impact suppliers. I know you talked a little bit about this, but looking long term, how do you see suppliers evolving from here?

Paul Soubry^ Well thanks, first of all, for recognizing that because most of my are falling out, and I know it won't grow back. But our supply base and David White, who's the head of our supply has done a phenomenal job with his team. So some of it is just the uncertainty of our suppliers, the changes and the impact that the components, whether the globally sourced microprocessors, blah, blah, blah.

We spent a lot of time going further to the supply chain now than we did before. We're working two or three levels down where before we just ordered an end item. We have built up our team to be able to look for alternates where they're available to reengineer parts where we might be able to. We're carrying more safety stock. We used to brag that we were kind of 78 days of inventory pre-work in process. We got up to, call it, 25 or 30. We're now down in the early '20s, but we are laying in more inventory on the shelf in line side than we did before, just to make sure that -- because the cost of non-productive labor and then off-line and ripple effect have not built in station and so forth is massive.

So never say never about supply dynamics for us, we're just given the nature of high variability and high customization. But our team, our methodologies, our audit methodologies of our suppliers. Another example, we used to spend a lot of time focused on delivery performance and quality. We've added company viability. We've added a whole bunch of other elements in our monthly assessments of all these suppliers, and we focused on the top 750 suppliers for the group.

So it's always going to be issue. We feel way better about the position we're in and all the things we've done associated with it. We're actually feeling really good about the impact that will have on the second half productivity.

Jonathan Mossiagin^ That was very helpful. One more question. What's your long-term vision for the U.K. market. Given the tough competitive landscape, do you think the consultation will be enough to maintain competitiveness?

Paul Soubry^ It's a really good question. The game is still -- I don't mean that disrespectfully -- the process and analysis with the customers, with the government, it is still happening. The root of the issue is, historically, ADL had a very significant number 1 market share position.

The customers were mostly PLC or public companies that we're buying with long histories, long visions and so forth. Four of the top five customers in the U.K. are now private equity owned, which may have a different focus or time horizon on their businesses. The second issue, there hasn't historically been government funding to support purchasing because that market is private operators bidding on routes and then outperforming a public service and trying to make money off that operation.

When the world started to move its shift to zero emissions, the Scottish and the English governments decided to help fund the transition to assist with their decarbonization plans. So they've been helping with X percentage of dollars to pay the delta between an ICE bus and a zero-emission bus. What they didn't do, in our frustration is say if you're going to use taxpayer money to assist the operators they really didn't put any requirement to have local capability, local jobs, local sourcing, no nothing.

So a privately held business that can buy a cheaper bus from China, did just that. So the consultation is a very formal expression of -- we must go through some negotiations with, as I said before, government, unions, our employees and so forth. We've announced that what we want to try and do is rationalize the facilities in Scotland into less facilities inside the English facilities and so forth.

I must tell you the Scottish government has really stepped up to try and work with us on ways of retaining the jobs. I think my personal opinion is we're going to see any taxpayer supported activities going forward. We'll have way more job creation, economic benefits, supplier requirements in their selection criteria.

So our whole dynamic around the consultation was to go after our competitors and our cost structure. The fleet needs to be replenished and there still is very focused positions for both the Scottish and English governments on decarbonization. In the U.K., you have more franchising moving from the central purchasing to purchasing within the individual mayors. That will provide, in our opinion, more focused on that local or that domestic requirement.

So we're not abandoning that market. It's an important market. We are a strong market position. We have spent lots of money to rejuvenate our platforms. We're now building all of our ICE as well as zero mission on all of our platforms ourselves, our own chassis. And quite frankly, we just have to adjust our cost base to improve our competitiveness.

So anyway we still think it's a very important market. Although as I said in my script, it's really 15% of our revenue opportunity. So it's not massive. It's just an important element. The other dynamic is as we deliver those new products, gain experience and performance, there is still international opportunities on go after.

Operator^ And the next question will come from Cameron Doerksen with National Bank.

Cameron Doerksen^ I want to ask about the, I guess the guidance range for this year, \$320 million to \$360 million, still a pretty wide range. Obviously we're highway through the year here. So I'm wondering if you can maybe describe what has to happen to get to, I guess the low end of the range and what has to happen to get to the high end of the range? I mean it seems like a lot of variability given that you've got, I guess better visibility on your delivery slots at least for the second half of the year.

Brian Dewsnup^ Yes. So good question. So I think you would have noted that while we've made improvement in seating, we've not -- that number is not zero right now. So we talked early in the year about kind of a Q2 getting to zero there. And obviously we didn't make that. So that's some of the reason why you're seeing a bit of a wider range is that we just have some uncertainty there with what our pace of deliveries will be, particularly in the New Flyer transit business in the second half of the year. So I think you're going to see that just kind of continue to be some variability and some -- and the range will stay where it is.

So with respect to the lower end and the higher end, really, our business is mainly about deliveries, and that's what's going to determine kind of lower to higher end of the range there. And Q4 is always a bit disproportionate in terms of the number of deliveries we have with a strong coach delivery for -- and that's why there's kind of more variability than you would normally see in a regular business, we just have a little bit more uncertainty in the fourth quarter given the nature of the private business is you don't have a ton of visibility into those orders and you wind up getting a lot of them in Q4 and consequently delivering a lot in Q4.

Cameron Doerksen^ Okay. No. That's helpful. If I just think about, I guess the delivery profile here. I mean -- and obviously you're not prepared to talk too much about 2026. But assuming that the seat situation is kind of cleared up by the end of the year. I mean I know that there's been a target out there to eventually hit 6,000 unit deliveries. I'm just wondering if that's a realistic kind of goal for 2026? How does the -- I guess the situation in the U.K. affect that kind of longer-term target? Just any thoughts around kind of the delivery profile as we look ahead over the next 12 to 18 months?

Paul Soubry^ Yes. Thanks, Cam. That's a good question. Yes. We had always kind of said we wanted to get back to that 6,000, which was kind of our pro forma 2019 number when Alexander Dennis included. So you do have a muted dynamic in the U.K. That's one thing that will affect the other issue, as you've heard us over the last quarters is our focus on zero emissions because they've been first challenge to get up the learning speed of building them, delivering and commissioning with our customers, charging infrastructure readiness and so forth.

So we are now way more focused on quality of earnings and quality of deliveries than pure quantum for the sake of it. So I would suggest that 6,000 is still kind of our target. I wouldn't kind of think we're headed there for 2026, but definitely '27 is probably more of the time we'll hit at that rate.

Cameron Doerksen^ Okay. That makes sense. And maybe just one quick final one for me. Just thinking about the U.S. funding. I mean you talked a little bit about the, I guess the loan program. It does seem as though that the current administration is maybe more focused on the low as opposed to the no emissions. Have you had any customers that have orders in the book now that have changed from a ZEB bus to something else? I mean I'm wondering if they're even allowed to do that. So just any thoughts around what you're seeing from your customers on how they might be shifting their focus as far as the type of propulsion system?

Paul Soubry^ It's really a good question and really for a lot of discussion on it. But imagine you and I walked into a transit agency, they've been working through a 5-year or a 10-year fleet replacement plan at some pace to move to battery electric or fuel cell electrons some cases, mill ground with hybrid electrics and so forth. So now you have a new government who's stated position on meeting zero emission targets is not the same.

You have funding dynamics locally that -- and operating cost dynamics and so forth. We also just saw the release of the apportionment, whatever a month or 2-month ago, which reinforced the last year of the IIJ Act. So I would suggest we're really in the early phase of what you just asked about Cameron, to that customer is saying, so what are we really going to do here?

With the launch of that program, we still put in, I can't remember, it's 150 or so proposals to customers to team for the low-no applications. I think we're probably going to see that customer depending on if they do or don't get awarded that stuff start to make those decisions on their next procurement as opposed to current procurement. There is no question, we still got some customers that today have zero emission buses on order, and they have a program to set up their charging infrastructure. In some cases, wholly smokes are charging fractures delayed.

So maybe we don't need [the bus of the] staff. That kind of stuff is just normal noise. And because we've got such a good backlog, we're able to invest. There is, though, we think there is going to be less of a pressure to focus. So right now our total percentage of

deliveries of zero emission is somewhere Steven in the mid-30s, right. And so we had expected by '27 that might get up to -- '28, '29 that might get up to 40%, 50%.

We're not wondering whether that's going to be the case. I also believe certain operators that are well into the electrification journey are not going to stop and reverse. They may slow down the pace of adoption. So that's a lot of way to say the game has just really kind of started. But the additional money this year or the completion of that last year, I kind of level set that we've got people asking for.

The second issue is there's been a letter this past week or two weeks ago from the FTA to the operators to say "Hi, we've been getting people asking us about our position as a federal government relative to zero emission. And how should we think about that? So the FTA issued a letter to all the operators to say if you want to change your plans on propulsion, whether you're already in RFP stage or in (inaudible) options and so forth, tell us what you want to do and we'll evaluate them.

That's the first time we've seen that because up to this point in time there's been -- you have a contract for an ICE engine or for a zero emission. You can't make changes to the carbon changes to the propulsion dynamic. You got to issue a new RFP and so forth. So that will also -- whatever they get back in terms of [Aspen] and requests will also signal what that might do to the overall adoption of zero emission. So I'm not trying to allude the question, but it's kind of a little bit too early to answer.

We do know that some of the larger operators, for example, New York and so forth, is really rethinking the pace at which they're going to adopt the zero-emission fleet. New York, for example, there's 5,900 or 6,000 buses. So there's massive dollars at play. Hopefully, Cam, that gives you a little bit of color and maybe next quarter, we'll have a better understanding of what the low nos happened this year, when awards happened, whether it was more low and less no, we'll see on that.

Operator^ And the next question comes from John Gibson with BMO Capital Markets.

John Gibson^ Just first on manufacturing margins.

Obviously a nice jump here in Q2. Do you expect them to hold at these levels in the back half of the year? And I guess what drove them higher this quarter just improved pricing, manufacturing or any other factors here?

Brian Dewsnap^ Yes, great question. Paul alluded a little bit to better efficiency within our facility. So that certainly played a part where as we continue to get more continuity of supply and as we continue to hear a little bit from American Seating, we're not all the way there, but that's led to better efficiencies. So you've seen the labor efficiency contribution there. As we look at the back half of the year, we would expect more of that. Then, of course volume as well helps a lot of stuff. So as we see the second half of the year with our expectation to increase volume, we would expect that those margins would continue to push through and push upward.

John Gibson^ Okay. Great. Then last thing for me, just as we think about the guide for the year, maybe asking this in a different way how much of an improvement with your original seat supplier does meeting your guidance implies kind of back to normalized operations by Q4 or somewhere kind of in the middle from where you're currently at?

Paul Soubry^ Yes. So the guidance that we've given and our expectation would be to get healthy with our seating supply sometime middle to end of Q3. And depending on how a few other factors go, that's about the timeframe when we would need to see that. And potentially, we might narrow the range of guidance as we get on our Q3 call. So that's our expectation as we go forward and we're working hard toward that.

Brian Dewsnap^ And the only thing I'd add, John, we have the benefit in the second half our new seat supplier, a new Buy-America compliant seat supplier has come online in Q2, and they ramp up more of the volume in the second half. So that's also a help to kind of our second half having that more diversification in the seat supply.

Operator^ And the next question will come from Jonathan Goldman with Scotia Bank.

Jonathan Goldman^ I apologize, I joined a bit late. Just a housekeeping one to start. On the 2025 guidance, was there any change to the underlying assumptions for EU deliveries this year, the 5,000-plus?

Brian Dewsnap^ No. We've not changed any guidance with respect to that.

Jonathan Goldman^ Okay. Perfect. Then I guess dovetailing on the previous question, like the unit profitability showed a significant step up, at least on my numbers, your EBITDA per EU is \$50,000, it's the highest in 2019. Throughput should be ramping in the second half. Backlog pricing is even higher than the latest pricing, maybe there's some mix in there. But is it reasonable to think you're on your way to exceeding your prior peak profitability back in 2017?

Paul Soubry^ Profitability as a percentage of dollars per unit or a percentage or so just to clarify what you exactly mean.

Jonathan Goldman^ Yes. Sorry, I guess I'm talking about it on a per unit basis, EBITDA per EU. I think you were around \$64,000, 65,000 back in 2017, you ended the quarter at \$50,000, and it just seems like things are working in your favor.

Paul Soubry^ So a couple of just some context. When we were just pure New Flyer, a transit bus only in Can-United States, that was a very meaningful measure of the health of what we were building and bidding and building and delivering. So as we added ARBOC, much smaller units, very different margin profile because in most cases, the chassis provided.

So the percent dollar unit is per unit is low, but the percent per unit is higher. When we added MCI, it wasn't that materially different than the New Flyer business. But when we added our Alexander Dennis, the margin profile domestically and internationally are very different, both on a dollar and a percent basis.

So now part of the challenge to answer your question is we're dealing with all kinds of -- like averages and blend of all those kind of things. As volume has recovered and Brian just alluded to this, yes, we worked on our overhead and cut our overhead where we could. But as volume comes up, the overhead recapture as significant an impact as the actual pricing per unit.

So we haven't been [giving quote] -- EBITDA per unit guidance. We're thrilled to see it recovering and growing. We're very encouraged by the quality of the pricing and the expected margins in our backlog as well as that volume increase that captures more overhead. So we would expect to see continued improvement in that EBITDA per EU at the global calculation perspective. So again not trying to be too elusive. But -- there's lots of things that come into that calculation. So it's not as simple as straight math.

Jonathan Goldman^ No. That's fair. There was some good color on those moving pieces. I guess one more then on cash flows. Again a lot of moving pieces in there. Can you help us parse out what would be a onetime cash expense or maybe an unusual element in the quarter, whether it's higher bank fees or redeeming debt? If you can give us kind of a global number of a drag on free cash flow, it's onetime. Then the second piece of this is on the cash taxes, looked a bit high in the quarter. Maybe anything there to call out and how we should think about cash taxes for the balance of the year?

Brian Dewsnup^ Yes. I think -- so I'll take the first question first. So in quarter, if you looked at a number of the adjustments, most of that was non-cash, but you would have seen the prepayment or the payment associated with the early extinguishment of the Second Lien that we had prior to the refinancing. So that was round figures, I think \$10.8 million and then the labor and overhead and a portion of liquidated damages. So round figure is another \$10 million would be cash affected as well. I believe the balance of what was in the adjustments were non-cash. And so those two things together, just round figures are about \$20 million worth of cash drag in Q2.

Then with respect to taxes, -- we do have some high variability in our taxes in the different jurisdictions. So we will look kind of abnormally higher in taxes than you would normally expect if we were kind of balanced across all of our jurisdictions. There's certain tax attributes and interest expense limitations that are affecting us, which will have us at a bit of a higher tax rate, at least through 2025, and then as we get into 2026, we should be able to take advantage of some of the positive tax attributes in some of the other jurisdictions. So hopefully, that was helpful.

Operator^ I am showing no further questions at this time. I would now like to turn the call back over to Stephen for closing remarks.

Stephen King^ Yes. Thanks, everybody, for joining, and thanks as always for the questions. If you want to follow up, please reach out to us at any time or check the website for the latest information, and we look forward to talking to you also. Thanks so much, and have a great day.

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