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NFI Group Inc to Provide Preliminary Q3 2022 Results and Updates of Full Year Guidance Call

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CORPORATE PARTICIPANTS

Paul Soubry *NFI Group Inc. - President, CEO & Non-Independent Director*
Stephen King *NFI Group Inc. - Vice President, Strategy & Investor Relations*

CONFERENCE CALL PARTICIPANTS

Cameron Doerksen *National Bank Financial, Inc., Research Division - Analyst*
Christopher Allan Murray *ATB Capital Markets Inc., Research Division - MD of Institutional Equity Research for Diversified Industries & Senior Analyst*
Daryl Young *TD Securities Equity Research - Mining Research Associate*
Kevin Chiang *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Analyst*
Mark Neville *Scotiabank Global Banking and Markets, Research Division - Analyst*

PRESENTATION

Operator

Welcome to the NFI Group Inc. conference call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to Stephen King, Vice President of Strategy & Investor Relations. Please go ahead.

Stephen King ***NFI Group Inc. - Vice President, Strategy & Investor Relations***

Thank you, Sonya. Good morning, everyone. Joining me on today's call are Paul Soubry, President and Chief Executive Officer; Pipasu Soni Financial Officer; and David White, Executive Vice President, Supply Management.

On the call today, Paul will walk us through today's announcement, our preliminary third quarter financial results, updated fiscal 2022 guidance, and comments on the broader macro environment and our outlook. Following that, we will open the call for analyst questions. Note that all figures referred to today are in U.S. dollars. If you have not been able to access the dial-in option of this call, please pose your question in the webcast chat, and we will read them aloud from there.

Also, for clarity, there is not a presentation associated with today's call. There will be a replay available on our website, as well as a transcript. I'll now pass the call over to Paul.

Paul Soubry ***NFI Group Inc. - President, CEO & Non-Independent Director***

Thank you, Stephen. And good morning, everyone. As you will have seen, we issued a press release earlier today discussing the impacts of the ongoing and escalating supply chain constraints that are disrupting our business and the impacts of heightened inflation.

While supply chain disruption and supply underperformance has been a challenge for our business during the second half of 2021 and throughout 2022, recent delivery misses from critical suppliers have compounded an already very difficult situation. This disruption has led to lower than planned completions in the third quarter and deliveries in the third quarter, and has forced us to change plans again for our fourth quarter production schedule.

There's no doubt there are challenges in the near term, but our long term remains very strong with a solid backlog that has seen benefits of increased bidding activity, and our firm order book, generally delivered within the next 12 to 18 months, is now more than 4,150 units. We continue to win major new awards as well. In addition to the backlog, we have another 1,350 units in bid award pending at the end of the quarter. This is where NFI has been selected as a preferred provider, but the contractual documentation has not yet been finalized. These awards will help grow our backlog in the very near term. In addition, the bid environment remains at record levels. We submitted the highest number of bids ever during the third quarter at more than 7,000 units.

Success on these bids will help drive additional growth in our backlog and future contract wins that will extend over multiple years for multiple deliveries. Unprecedented government funding continues to drive this activity, and we expect that this elevated demand for our products and services will continue into 223 and beyond. I'll also note that, due to the previously mentioned supply chain challenges, we've had a significant number of vehicles that are built but are missing parts, but these vehicles are contractually committed for customers and represent a temporary investment in work-in-process inventory that we will unwind as we complete and deliver the vehicles when the missing parts are finally received.

I'll now turn to preliminary third quarter results. Based on the financial reviews we've completed to date, we anticipate that we will deliver between negative $15 million and negative $17 million of Adjusted EBITDA in Q3. These results reflect the impacts of supply chain disruption, plus certain contract margins impacted by inflation.

As we have previously discussed, there are several contracts in our order book that date back to awards that were secured in 2020 and 2021 and that do not reflect the current market pricing or surcharges from suppliers of parts and freight. We've aggressively sought pricing adjustments or advanced payments from customers to help offset inflationary impacts. And while we've seen success, a certain number of those contracts remain in detailed negotiation. The combination of supplier disruption, resulting production inefficiencies and lower-than-planned deliveries when combined with these higher material costs have led us to underperform to our expectations.

Our liquidity position, however, remains strong and will support us as we navigate through this challenging period. We [had] (corrected by company after the call) over $470 million in liquidity, subject to a $250 million minimum liquidity covenant, at the end of the third quarter. And despite expectations for lower production in the fourth quarter, we plan to achieve more than $500 million in liquidity by the end of the year as we complete and deliver certain vehicles from our work in process inventory that are currently missing parts.

I'll note that, for many of our vehicles as they are delivered, they move from inventory to accounts receivable, and it may take some time for those deliveries to convert into actual cash. We anticipate continued cash generation as we receive payments for completed vehicles through the first quarter of 2023. Now we do anticipate some production improvement in the fourth quarter, but we're very cautious as we navigate through this uncertain supply environment.

We now plan our fourth quarter line entries and deliveries to be lower than our original targets. Simply put, line entering new buses at a higher production rate when we are short of critical parts and have lack of confidence in certain materials is not a prudent use of resources or capital, plus it is incredibly disruptive to our people and our manufacturing operations.

Instead, we've chosen to focus on lowering our work in process inventory as fast as possible by installing the components and parts for waiting buses as soon as they are received so we can deliver buses to our customers. Based on our expectations combined with year-to-date results, we've adjusted our full year Adjusted EBITDA guidance down to a negative $40 million to negative $60 million.

This is a significant reduction and a reflection of the supply constraints and supplier reliability that we have faced with many of the recent supply decommits occurring as late as late September and all the way through October. The timing of these misses and critical nature of these parts impacts limits our ability to source alternate parts to try and reconfigure buses or reconfigure schedules. I can assure you we've not been sitting by idly as we face these supplied inflation challenges.

Throughout 2022, we completed numerous actions, including the previously mentioned customer price adjustments. We've worked directly with our suppliers and their suppliers several tiers down to source components and input parts and come up with alternate supply delivery processes. We have even used our engineering teams to try and design and develop alternate parts and components where at all possible.

We've seen [success] (added by company after the call) from these actions, including the consistent supply of control modules that we were missing on numerous North American transit buses during the second and third quarter. We've been able to obtain a steady supply of modules by working directly with our supplier and by sourcing microprocesses directly on the open markets. We have now delivered almost all of those buses that were solely missing these specific modules.

And we executed per schedule and as we had planned. Despite the focused and tireless efforts of our supply team, the unplanned disruptions to our production lines of critical components have simply continued longer than we anticipated. Scheduled recovery plans have elevated recently to the extent that we needed to take today's actions.

The challenging macro-operating environment is not unique to NFI, as electrical components such as microprocessors, connectors, wiring harness and other items have remained constrained globally, impacting all vehicle manufacturers, including our peers in the bus industry. With today's transit bus requiring such an increased level of electrification and electrical integration, missing even one component in the production line will not allow the bus to run nor to have its electrical checkouts performed online and clearly, road testing not complete.

While I do expect some of these [supply] (corrected by company after the call) disruptions to continue into 2023, the actions we have taken, and we will continue to drive, will allow our production lines to recover significantly and maximize bus completion in the fourth quarter, and we will assist our suppliers in delivering to our requirements as we move into the new year.

Let me summarize a few of the critical actions we are currently working on in response to these supply chain challenges. Starting today, we have decided to halt new vehicle starts across New Flyer facilities for 2 production weeks. We believe this will allow time for certain suppliers to deliver components required to complete built vehicles that are missing certain parts and where possible, to build up production adjacent inventories of parts and components.

Two, following this temporary halt, New Flyer will resume new vehicle starts at rates consistent with those from before the halt, and we will only increase production once confidence in supply chains has improved. We will continue to review new bus production rates relative to supply chain health and will action any required cost reductions, including overhead and facility as required.

We are continuing to work directly with our suppliers and their sub-suppliers to increase inventory levels where possible and develop longer lead times to better support new vehicle production. We continue with NFI Forward and NFI Forward 2.0 cost reduction issues, which include overhead decreases, facility rationalization and strategic sourcing programs.

Since the pandemic began in 2020, we've closed 2 production facilities, one fabrication facility and 9 parts distribution locations. The MCI motor coach completion facility in Pembina, North Dakota is currently being wound down, and we will be closing that facility by the end of the first quarter of 2023. We have also generated $67 million in annualized savings from lowering our overheads and administrative expenses since the NFI Forward initiatives began.

Now, given our new guidance will impact covenant calculations that resume in January 1, 2023, we are already discussing temporary financing solutions with our banking and federal and provincial government partners to seek solutions for covenant flexibility through the period of supply chain unreliability. We are confident this path will deliver an appropriate solution.

We're also confident that our liquidity position supports our plans and targets as we move through the near-term headwinds. We are confident that we will see our financial position improve moving forward. As I said earlier, this view is supported by our backlog that includes 4,100 firm orders and another 4,300 option units and 1,300 units in bid awards pending.

And the fact that we submitted our highest number of bids ever in the third quarter of 2022. This is all underpinned by unprecedented government funding that will drive future order activity. NFI is the market leader in North America bus and coach in U.K. transit, in Hong Kong double deckers, and the global leader in parts for bus and coach. We've been growing our business internationally and have continued to develop market-leading products that will support our customers to transition to zero-emission buses.

While there have been numerous near-term challenges and they seem to continue, our overall market position has not changed. We've not had customers cancel orders. As a matter of fact, we've also seen an increase in overall win rates, especially for zero-emission buses. While no one could accurately forecast when supply chain will fully return to normal, there have been some signs of recovery for many parts.

We won't increase our production rates until supply chain help warrants, but we are optimistic based on supplier lead time conversations by this temporary halt in our facility, declines in commodity pricing and lower shipping backlogs that we can recover. Overall, we have not wavered from our long-term targets and are confident that NFI will and can recover from these challenges and continue to lead this industry.

Our 2025 targets remain with expectations of $400 million to $450 million of Adjusted EBITDA from revenues of $3.9 billion to $4.1 billion. These expectations do not require a massive change to our business as we have delivered Adjusted EBITDA of $332 million on a pro forma basis back in 2019, accounting for the acquisition of Alexander Dennis and prior to any of the savings that we've implemented from NFI Forward initiatives.

These targets are based on anticipated higher sales of zero-emission buses, recovery in our production rates, increased expansion in international markets and volume leverage as we produce a higher number of vehicles on a lower cost base, thanks to NFI Forward. I want to thank our teams, our customers, our banking partners, and our shareholders for supporting us as we continue to work through these unprecedented headwinds.

I'm confident that our team will move forward beyond these issues and deliver long term for our stakeholders. Now before we open the call to questions, I'd like to make one administrative note that we will be moving the date of our third quarter financial results release from November 2 to November 15 to provide additional time for our teams to complete the required materials.

A call will follow on November 16 details coming shortly. Sonya, please open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from Mark Neville at CIBC.

Mark Neville ***Scotiabank Global Banking and Markets, Research Division - Analyst***

Paul, you mentioned getting relief. I'm just curious if you started those discussions with the banks, what that relief might entail? And I guess also curious, just what relief that you could get from the governments that would be helpful because, again, it doesn't really look like liquidity is the issue, it's more EBITDA.

Paul Soubry ***NFI Group Inc. - President, CEO & Non-Independent Director***

Well, that's exactly it, Mark. The EBITDA covenant as we got through our and continue to work through our Q3 numbers. And then we made the decision to just say, let's stop inducting unproductive...and WIP that's going to sit there. It became crystal clear we're going to miss our third quarter, but that we cannot catch up on the EBITDA in the fourth quarter.

So that reality forced us to have this decision at this point in time and get where we are. Yes, the conversation with the lead at the syndicate has already started. We made them aware as we were doing our work that that was a possibility throughout the last week or two, so it comes as no surprise. Frustrated, for sure.

Look, the reality of our business is we haven't lost work, we don't worry about where we're going to sell buses going forward. I used it a couple of times in my prepared remarks. Our backlog, our options, our bid award pending, our bid universes are at crazy levels. Unprecedented government funding. So, when we look to our syndicate, it's not like the business is fundamentally broken.

We've got a challenged supply chain that is really inhibiting our ability to deliver in the short term. Long term, all of those tailwinds underpin a really solid business going forward. The details of covenant relief at this point in time: we haven't tripped a covenant at this point, let me be clear. The details of trying to get through that flexibility are now going to continue in discussions in earnest with the banking syndicate.

We talk about the government partners because, look, we're a very significant supplier, a Canadian champion, a global player, a market leader. And it'd be imprudent for us not to look out to our federal, provincial partners to see what relief and support they can provide. A key player inside our current banking syndicate is EDC, and their mandate is to help Canadian business and exporters.

So, I'll just leave it at that to say that those conversations will happen in earnest. We'll give you a complete and full update again on the 15th when we provide our Q3 results. I'll reiterate the business has lots of tailwinds and is fundamental. The short-term reality is an EBITDA challenge. If I could have delivered all the buses in WIP, I wouldn't be having these conversations today.

Mark Neville ***Scotiabank Global Banking and Markets, Research Division - Analyst***

Right. Understood. And I understand it's early, I understand these discussions were just starting, but I'm going to ask the question anyway because it's obviously going to be top of mind. Just thoughts around external capital equity to get through this, if that's going to be necessary? Again, I know it's early, but I just have to ask the question.

Paul Soubry ***NFI Group Inc. - President, CEO & Non-Independent Director***

No, it's a fair question, Mark. Look, you know that we've done a number of raises over the last -- well, since COVID began. We've done covenant relief with the support of the banking partners numerous times, I think, 4 times in the last 2 years.

It is not our desire or interest to go and dilute our shareholders and raise capital. Could that happen? It might. But quite frankly, our vision, our focus, our effort is to work on getting some kind of covenant adjustment or relief to allow us to execute until we can feel confidence in the supply chain.

Mark Neville ***Scotiabank Global Banking and Markets, Research Division - Analyst***

Got it. Maybe just a question around the backlog, like is there a risk or what would be the risk of the penalties? Just with all that firm backlog, if you can't execute on, the supply chains, again, take more time to recover, just sort of thinking about the backlog from the other way.

Paul Soubry ***NFI Group Inc. - President, CEO & Non-Independent Director***

Yes. As you know, every one of our contracts have kind of 2 basic elements to them in maybe slightly different forms. One is the termination for convenience clause and the other is some element or definition around liquidated damages.

So, we've been able to, through this last little window, work very effectively with our customers to, a) not have contracts canceled, but b) mitigate or avoid any liquidated damages. There always is that risk but, quite frankly, our customers have been spectacular understanding the reality we're in.

And it's not like it's just New Flyer. Any other supplier they work with has exactly the same global supply challenges on critical components. It's not like they could cancel an order with me and expect to get a bus tomorrow from a competitor. That is just not going to happen. And, so, they've been really accommodating. There's also the reality in many cases that customers that we're building electric buses for may or may not be fully ready with their charging infrastructure. And so they've been more than accommodating. The risk is there. I believe we've mitigated it.

Mark Neville ***Scotiabank Global Banking and Markets, Research Division - Analyst***

Got it. I'll pass it over, we'll give it back to you.

Operator

One moment. And our next question will come from Kevin Chiang of CIBC.

Kevin Chiang ***CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Analyst***

Thanks. Good morning, everybody. It looks like you're getting the modules, obviously, other critical suppliers are now missing their time lines. Maybe you could give us a sense of what are some of the other component parts that are being problematic now?

And is the solution the same as you do with the modules, kind of get to the broker market and secure the supplies so you can clean up the WIP, or does this require a different solution than maybe how you approach the module supply situation?

Paul Soubry ***NFI Group Inc. - President, CEO & Non-Independent Director***

No. The module one was a massive kick because the delay, the time of delay between, hey, we got a problem from the supplier to, hey, we can solve it with several months. And, so, we did 2 things. We worked diligently to create an alternative module, which, quite frankly, hasn't gone as slick or as swift as we would have liked it.

We also, David's team worked deep, deep, deep into the supply chain, in some cases, 3 or 4 levels down to source certain components and specifically micro-processes from alternate or open market providers. We do that all day long with all of the parts that we have. In the last 2 weeks, we've had decommits on major components from major, major U.S. or global suppliers that have caused them inability to supply to us.

So it -- there's all kinds of problems. The vast majority of them relate to microprocessors or electrical components or wiring harnesses. We will do exactly the same thing of trying to alternate source or trying to work with the supply chain to help them source components deeper down in terms of the chain. But it's not as if we come up with a microprocessor, we plug it into our bus. That's got to go through various sub tiers in the supply chain ultimately to the module provider and then to us.

Kevin Chiang ***CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Analyst***

Do you think those decommits are unique to you in the sense of the transit bus market is still relatively small compared to other commercial vehicle or the broader vehicle market. Do you think you're being deprioritized from the suppliers as they focus on maybe delivering on larger customers or into larger industries where the TAM is just naturally bigger?

Paul Soubry ***NFI Group Inc. - President, CEO & Non-Independent Director***

Well, that may be the case. And I'm sure from an overall perspective, if you were a massive sub-tier supplier and you have resources, you put them in an automotive world, where somebody is ordering 10 billion of them as opposed to our world where we're ordering 20 here and 50 of those.

But the uniqueness of our market adds another level of complexity, and, therefore, the types of suppliers we have are -- it's very complex. I mean take a wiring harness, for example. We've been short of wiring harnesses. We've had dual sources supply. We changed sources of supply. We're actually building some of our own wiring harnesses. But you've been to the plant, Kevin. The wiring harness is one of those parts that goes on first after the shell is built.

If you don't have a wiring harness, you can imagine the cascading challenges all the way down the production line. And then you can't close out the bus. You got to reopen to take all the bus apart at the end of the line. It's crazy for us to put more of those on-line.

The other dynamic of reality is that our batch sizes are relatively small. I don't think any of our suppliers are consciously decommitting to us. I just think they're having a hell of a time getting certain components, and because of the unique customized bespoke nature of our product. And, so, we'll continue to work it. As I said a couple of times in my remarks, it's crazy, it's the definition of insanity continue to drive more higher volume through the production line knowing we're going to be shorted.

And that's what really precipitated us on a couple of key builds coming up in the next wind of time let's just stop the machine and then ultimately keep it at the same rate before we ramp it up.

Kevin Chiang ***CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Analyst***

Okay. Maybe just last one for me, just to follow on Mark's line of questioning on the options available to you as you address your covenants. As Mark mentioned, you have an EBITDA problem, you don't necessarily have the liquidity problem. How does raising more liquidity then address whatever concerns your syndicate has.

It feels like, based on your press release and what you're saying on the call, you have sufficient liquidity, creating more of a buffer in and of itself, I don't think, directly addresses maybe the pain point you have right now, which is delivering the buses to generate sufficient EBITDA to kind of get to your total leverage ratio covenant. I'm just, maybe you can just maybe clarify and walk me through what exactly some of the options in front of you are here.

Paul Soubry ***NFI Group Inc. - President, CEO & Non-Independent Director***

Yes. Look, you're exactly where we are in your assessment of that, Kevin. We don't believe we have a liquidity problem. And in fact, as I said, we believe we're going to generate cash in the fourth and the first quarters to improve our liquidity, notwithstanding the minimum liquidity covenant. At the end of the day, we get it, the banks in the syndicate; we have a very supportive and deep syndicate, but, at the same time, they're trying to minimize their risk and their exposure. So me raising more money doesn't help the liquidity.

It's really around helping and assisting with their exposure perspective. My view is that what we really need is a little bit more covenant flexibility over the next little time as opposed to more liquidity. Or, is there a scenario to change some of the liquidity that we currently have. But that's really what the focus is. I don't think I need to have liquidity to run the business. And they've been crazy supportive ever since we started the COVID dynamic.

They were tremendously supportive even pre- that with all of the acquisitions and the diversification we've done over a number of years. We just got to find a way to make sure that they're comfortable with the risk. And I go back once again to the same comment with Mark. It's not like I'm wondering who I'm going to sell product to. I'm not building product for a shelf or for a future possible sale.

I know who I'm selling it to, it's contractually obligated, it's a matter of getting the material to execute and just making prudent decisions about how we execute with our people and how we use our facilities and how much money we tie up is really where we're focusing our short-term actions on.

Kevin Chiang ***CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Analyst***

I think on the Q2 call, you said you're going to burn to about [$200 million] (corrected by company after the call) of working capital in the third quarter, maybe it was a back half comment. Is that still the right way to think about it? Because it sounds like you're generating cash in Q4. So, is [$200 million] (corrected by company after the call) kind of a good bogey still? Or.//

Paul Soubry ***NFI Group Inc. - President, CEO & Non-Independent Director***

So that's a good question. Yes, great question, Kevin, if I wasn't clear in my remarks, if you walked into our facility this morning, you're going to see a fraction of the people that are normally here in Winnipeg, for example. Those people that are here are solely focused on either catching up our own internal fabrication or on installing parts for buses that are off-line WIP as opposed to new line entries.

And, so, over the next 2 weeks, any of those critical parts and components that come in, we will finish the WIP, execute, test it, and deliver it to our customers.

So that clearly is the focus of the resources we have inside the facilities so that when we start up again, we've not only burned out some of that stuff, but we've also given our supply chain a little bit of a buffer to get caught up on parts that are overdue, so that we are actually line entering buses where we know we have the parts as opposed to we're not sure whether they're going to show up. But that's absolutely fourth quarter's focus; it is WIP burn down.

Operator

One moment. And our next question will come from Chris Murray of ATB.

Christopher Allan Murray ***ATB Capital Markets Inc., Research Division - MD of Institutional Equity Research for Diversified Industries & Senior Analyst***

I guess a couple of quick questions. I'm trying to maybe frame this a little bit. First of all, is it fair to think that most of this is isolated to the bus manufacturing; the aftermarket business kind of continues to tick on?

Paul Soubry ***NFI Group Inc. - President, CEO & Non-Independent Director***

Yes and no. Look, at the end of the day, when we don't have a part for a bus either online or that's building, you don't have -- you can't finish and complete the bus. So, our primary focus obviously is get a part destined for the manufacturing and completion of a bus, and get it out to the customer.

The reality of our aftermarket is that they, too, are being significantly shorted by the supply base. And some context. Normally, in our aftermarket, we'd have about 20 plus or minus million of parts on order that our supply base has not yet been able to deliver. Now some of that is parts that they're going to deliver in the next period as opposed to parts that are purely overdue.

Right now, the combination of NFI Parts and Alexander Dennis parts over in the U.K. internationally is something like $48 million to $50 million on back order. And so that's the single biggest problem that we have in terms of that ability of the aftermarket is I've got an order right now for a depth tank filter or whatever sensor. I can't fulfill that order.

So our parts business is also being hampered. If you walked into the plant and you looked at the delivery performance on the shop floor, 98% or 99% of the parts are here. It's those key critical parts that we don't have that have massive cascading issues that cause us to be careful about any additional WIP we put on the production line. But the long answer, short or long commentary, short answer, the OEM business is hampered, which is why we're slowing it -- we're stopping or halting it and then keeping it at current levels. The parts business continues to have back orders from suppliers and, in many cases, the exact same parts.

Christopher Allan Murray ***ATB Capital Markets Inc., Research Division - MD of Institutional Equity Research for Diversified Industries & Senior Analyst***

Okay. And then just thinking about longer term in the discussion with suppliers, and it sounds like you've gone, as you said, a few levels deep on this one. Is the feedback you're getting from suppliers right now, and I appreciate -- it seems like the commentary changes kind of week-to-week, but is this stuff that they're telling that it's a couple of months catch-up or a few weeks? Or is this something that there's something structural in nature and longer term? And does this maybe drive you to thinking about more insourcing or different ways of putting together some of these parts. So, any thoughts around kind of where some of these things are going to shake out as we go into to 2023 would be helpful.

Paul Soubry ***NFI Group Inc. - President, CEO & Non-Independent Director***

Structurally, Chris, we're not going to insource some of this stuff. Key material from BAE or Siemens or whatever, right? These guys are not able to supply because some of their supply chain, back to electrical connectors, wiring harnesses, microprocessors and so forth. It's not mostly our direct supplier that's the problem, it's the sub suppliers. So, is it a structural issue? No.

There are some things we can do. For example, we have in-sourced some of the wiring harnesses to build at our KMG facility. But those are relatively unsophisticated compared to some real sophisticated parts. Electronic controllers for doors or for axles or for batteries and so forth are not things we're going to in-source or manufacture ourselves. We just have to weather the storm of the global dynamic around microprocessors and connectors and that kind of stuff until our supply chain feels confident.

I'm having a hard time handicapping whether that's 2 weeks, 2 months or 6 months. David [White] (added by company after the call) will tell you, it's better, it's better, it's better. But when it is critical components in a highly customized product, there really isn't much you could do in the short term.

Christopher Allan Murray ***ATB Capital Markets Inc., Research Division - MD of Institutional Equity Research for Diversified Industries & Senior Analyst***

Okay. And so -- I mean what's your level of confidence that we aren't having the same conversation again in Q1 or Q2 of next year?

Paul Soubry ***NFI Group Inc. - President, CEO & Non-Independent Director***

Well, that's a really, really, good question. We manage a short list, right? We see, every single morning we walk in, we know parts that we're missing. We've done a couple of things. David [White] (added by company after the call) has set up very developed supplier development and sourcing teams. We're spending all kinds of time inside our suppliers' facilities assisting them with sourcing material.

From a fabrication perspective, we've taken on certain things where we can inside our own facilities.

When it comes to completing a vehicle, we've not only slowed down, as I said, or stopped the line entries for a while and decided not to ramp up. We've set up tiger teams, if you will, in every one of the facilities to retro buses as soon as material comes in. There is a chance that we're having considerable, or not considerable, but by having these kinds of challenges as we move into 2023.

The key for us then is not to try and ramp up our facility to create a bigger problem. We will only ramp up once we feel comfortable that that material is either on route or here in our hands.

Operator

And our next question comes from Cameron Doerksen, National Bank Financial.

Cameron Doerksen ***National Bank Financial, Inc., Research Division - Analyst***

Good morning. Can you just talk a bit about the ADL supply chain? Are we seeing some of the same issues there? Or is that sort of a different story?

Paul Soubry ***NFI Group Inc. - President, CEO & Non-Independent Director***

No. Morning Cameron. Yes, ADL has primarily exactly the same issues. Now what ADL has that's a little bit different is ADL has the ability to source anything anywhere on the planet as opposed to New Flyer or some large parts of the motor coach business which has to be Buy American-compliant, which adds another level of complexity. But the stuff that we're challenged with (connectors, again, wiring harnesses destination signs, controllers) are kind of global commodities or global supply chain issues, right?

Add to that, the electrification of the buses in North America, where we control, I mean we're sourcing, we're integrating, we're designing, we're the ones that put all the pieces together. Most of Alexander Dennis' electrical buses are built on top of a BYD chassis and so BYD are the ones dealing with all of the complexities around the electrified chassis.

So, it's similar, but at the same time, slightly different. So, Alexander Dennis has not been hurt as bad as New Flyer or MCI has.

Cameron Doerksen ***National Bank Financial, Inc., Research Division - Analyst***

Okay. No, that's helpful. And just thinking about, I guess, the RFP activity, I mean, you mentioned the highest, I guess, bidding activity ever in Q3, I think you said 7,000 plus units that you submitted. I'm just wondering, when a transit agency is coming up with an RFP, what years are they talking about here of delivery?

They must understand that there's significant constraints across the entire industry. So, as you, I guess, win some of these awards, are you kind of building backlog and visibility into 2024, '25? I'm just kind of trying to get an idea of what kind of the expectations are from transit agencies on their deliveries over the coming years.

Paul Soubry ***NFI Group Inc. - President, CEO & Non-Independent Director***

Absolutely, that is the truth, and the reality in their world. Back to what I was talking, I think, to either Chris or Mark about, some of these agencies that have put out RFPs for electric buses or fuel cell-electric buses, their infrastructure is not ready. So, they're trying to time and manage those 2 dynamics.

If we see this on RFP...we signed off an RFP yesterday for, I don't know, 50 or 60 buses. Those buses won't go online until first quarter of 2024. So, from today to the end of 2023, specifically the New Flyer case, we're effectively filled slots, right? Everything that we're quoting now is late '23 and into '24, and some of them are multiyear contracts into '25 and so forth.

I can tell you we've been crazy diligent on focusing on purchase price indexes and escalation tools and so forth inside those contracts so that we don't get stuck in the situation that we are today, where a certain portion of our work has massively increased input costs with a firm contract selling price.

Cameron Doerksen ***National Bank Financial, Inc., Research Division - Analyst***

Okay. And to that end, if I think about your 2025 targets, I would assume that today, you would probably have, I guess, much more confidence in the bus deliveries in 2025 that you had versus what you had when you first put out that guidance.

I guess what I'm getting to is that, assuming the supply chain figures itself out here in the next couple of years, 2025, at least from a revenue perspective, I think it would be fair to say that you have a high degree of certainty on hitting those revenue in the bus delivery targets. Is that fair?

Paul Soubry ***NFI Group Inc. - President, CEO & Non-Independent Director***

Well, I hope I said that Cam, because that's what we tried to articulate in the speaking notes today. If you look at the hell of a hockey stick, right? We're going to lose money this year. We're going to lose a bunch of money in the third and the fourth quarter, tough to swallow. When we go back to the fundamentals, how many units do we need to build in '25? What does the margin look like based on the way we're pricing it today? What does the funding to underpin and the bids on the street to underpin those volumes.

They're not crazy when you go back to what we were doing pre-COVID. You look at the diversification things that we've done, you look at the cost reduction efforts we've done through NFI Forward and the NFI Forward 2.0. Our assessment, and quite frankly, the Board challenged the hell out of this over the weekend on that, are you sure. We kept saying, when you look at the fundamentals, the buildup of a 2025 sales plan and EBITDA plan and cash flow plan, it's not like there has to happen a miracle.

We just have to have confidence in the supply chain. If we didn't have the government funding underpinning this, if we didn't have the political wherewithal associated with zero emission and environmental emission targets and all those things, it would be a very different discussion. We have tremendous confidence our industry and specifically with our win rates can execute to that plan.

The biggest caveat is our supply chain has not been able to keep up, and the conversion of our vehicles from ICE to zero emission has added to that complexity because you have that many more electrical components on a vehicle. The table's set, we've got to figure out how to execute, but no question there's the demand.

Cameron Doerksen ***National Bank Financial, Inc., Research Division - Analyst***

Okay. No, that's great color. Thanks very much.

Operator

And our next question will come from Daryl Young of TD Securities. Daryl, your line is open.

Daryl Young ***TD Securities Equity Research - Mining Research Associate***

First question is around the 2023 production profile. And I guess what percentage of that would be from fixed price contract that would arguably be underwater on a margin basis versus in the backlog that would be maybe staggered more years out? Or I guess, is there an ability to have more favorable pricing in the 2023 deliveries?

Paul Soubry ***NFI Group Inc. - President, CEO & Non-Independent Director***

So, that's a really good question, and I'm not going to avoid it, but I will tell you that as we issue our Q3 results on November 15, and as we move into 2023 to provide guidance for next year, we'll have a little bit more color. Our hesitancy of addressing that at this point in time is we will see what this halt period does to our burn off of WIP, and we will see what happens to our supply chain recovery in some of these key components over the next little while.

There are no question that there are some units that we will build in 2023 that have hampered margins based on when they were built, when they were bid, and when the actual components were sourced to put in those buses. We have already received a considerable amount of relief from customers in kind of, ways.

One is some of them have helped us with price surcharges or price adjustments or PPI adjustments and some have helped them with that plus some assistance with prepays or milestone payments. So those things continue. As I said in my notes, there's a couple of really big contracts that we are in negotiations with customers today about changing the shape of those contracts or adjusting the way they're paid or adjusting the pricing for those vehicles.

Those will have an impact on our 2023 for sure. We also have, quite frankly, and we'll deal with it again in our quarterly, some insights into the portion of work that is Canadian and what impacts our FX, as FX moves has dramatically changed over the last little while. What that means for some of our Canadian contracts. We are diligently working with customers to try and address any of those contractual dynamics before 2023 starts.

Daryl Young ***TD Securities Equity Research - Mining Research Associate***

Got it. Okay. And then with respect to the pricing dynamic. How are you thinking about -- it sounds like you're getting some more favorable pricing right now and good pass-throughs, but how are you thinking about the labor and the overhead allocations and the pricing of new bids, just given you're going to be running a lot smaller batch sizes next year, a mix of different products.

And so, I think in the past, you've said that it's multiple hours of work if you have to sidle a bus on the production line and wait for a part to be implemented. So, I'm just thinking of the complexities were through, you could have a lot more rework than you're used to going forward and a lot more labor and a lot more overhead in these bids or these buses you're producing.

Paul Soubry ***NFI Group Inc. - President, CEO & Non-Independent Director***

Yes, good question. And, intuitively, I get exactly where you're going. The reality is because we're going to slow down now and because we're not going to ramp up that our plan, our understanding based on current supply delivery of material is that we should be able to burn off a good portion of the WIP by the end of the year.

By slowing down the rates until we're confident we will be creating less offline WIP as we move into 2023 and therefore, reprocessing in the parking lot or reprocessing through retro lines will be less prominent in the first quarter of next year. So, this time, we took a flyer, if you will, on ramping up and on executing at a certain run rate, assuming supply would catch up to us.

Now we're going to hold at a certain level until we have confidence that it's going to work its way through. And, I've said it several times, for every hour that we don't put a part on the production line, there's 3 to 5 hours offline dealing with that, right? Remember, too, that labor and overhead is probably maybe less than 20% of the cost of building that vehicle.

Daryl Young ***TD Securities Equity Research - Mining Research Associate***

Okay. Got it. That's all for me.

Operator

I'm showing no further questions. I would now like to turn the call over to Mr. King for closing remarks.

Stephen King ***NFI Group Inc. - Vice President, Strategy & Investor Relations***

All right. Thanks, Sonya, and thanks, everyone, for joining us this morning and for your questions. As I mentioned, there will be a replay and a transcript of this call available on our website shortly.

And as Paul mentioned, our third quarter full financial results release will be on November 15 with a conference call to follow on the morning of November 16. Thank you very much. Have a great day.

Operator

And this concludes today's conference call. Thank you for participating. You may now disconnect.
