

NFI Group Inc. (Q4 2024)
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Corporate Speakers:

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

Participants:

- Chris Murray; ATB Capital Markets; Analyst
- Krista Friesen; CIBC; Analyst
- Cameron Doerksen; National Bank Financial; Analyst
- Daryl Young; Stifel; Analyst

PRESENTATION

Operator^ Good day. Thank you for standing by. Welcome to the NFI 2024 fourth quarter and Full Year Financial Results Call. (Operator Instructions) Please be advised today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Stephen King, Vice President, Strategy, Investor Relations. Please go ahead.

Stephen King^ Thank you, [Kevin]. Good morning, everyone. Welcome to our call. Joining me today are Paul Soubry, our President and Chief Executive Officer, and Brian Dewsnap, our Chief Financial Officer.

On today's call we will give an update on our quarterly and annual results, highlighting year-over-year improvement across numerous financial metrics, the strong demand environment for our products and our record backlog. We'll also provide an update on the operating environment including our assessment of tariff and funding dynamics, and our near-term 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 Investors section of our website. As we move through the slides via the webcast link, we will call out the slide number as we go for those on the phone.

Starting with slide 2. We provide our cautionary or forward-looking statements. And we 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 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 including zero-emission buses, or ZEBs, and equivalent units, or EUs. A reminder that NFI statements are

presented in U.S. dollars. The company's reporting currency, and all amounts referred to are in U.S. dollars unless otherwise noted.

Slides 3 and 4 provide a brief overview of our company. NFI is a global independent bus and motor coach mobility solutions provider. We offer over 60 bus and coach models with a wide range of propulsion types including clean diesel, natural gas, diesel, electric, hybrid, battery electric, trolley-electric and hydrogen fuel cell electric. We hold leading market share positions in North American transit and coach markets, and more detailed information is available in our materials.

Slide 5 provides some brief insight into NFI's business mix and our leadership position in the transition to zero-emission propulsion.

I will now pass the call over to Paul to provide an overview of NFI's results for the fourth quarter and fiscal 2024.

Paul Soubry^ Thank you, Stephen. And good morning, everyone. Thanks for joining us today. So, before we get into the details of our presentation reflecting Q4 and our fiscal '24 results, I'd like to reflect on a few key points to set up the stage. The past year, we generated significant growth across our business, and we continue to advance both our operational and financial recovery. Yes. We faced specific supply-related disruption, which impacted our results in the second half of 2024, but we responded with a detailed and aggressive action plan.

We've experienced performance improvement that alongside other actions in progress, we have supply diversification and that our forecasted growth for 2025 and beyond. We achieved several major milestones in fiscal 2024 including our highest annual orders ever the largest backlog in our history and record financial results in the aftermarket segment. Our strategic decisions to be propulsion-agnostic utilized localized production and distribution facilities, and to offer customized solutions, continues to position us well in a very fluid environment.

I'd like to acknowledge the efforts, dedication, ingenuity and hard work of our entire team who helped us deliver in 2024 and will continue to provide industry-leading support for our customers.

I'm now on Slide 7. Slide 7 is a summary of our Q4 and fiscal 2024 results. Starting with demand. We had new orders in the quarter of 1,904 equivalent units up 1% year-over-year. This contributed to our highest annual orders ever with a total backlog of 9,489 EUs in 2024, which is a fifth 5% increase from our 2023 numbers. Our backlog comprised of both firm orders and options, continues to grow at a very strong pace and hit a record \$12.8 billion at the end of 2024, totaling 15,000 on 135 equivalent units. This growth continues to be primarily driven by North American public transit operations, where the number of bidders on new RFPs has reduced substantially.

In many cases, NFI is the sole bidder or one of two bidders. And for some competitions, we are the only provider of certain models and propulsion types. Our full yearbook-to-bill ratio remained strong at 121.4%, primarily driven by these increased orders I just described. Our option backlog conversion rate also showed continued recovery, reaching 76% on an LTM basis. Our financial results demonstrated our continued recovery in growth. We achieved a 77% year-over-year increase quarterly adjusted EBITDA, contributing to \$45.2 million improvement on a fiscal year basis. We achieved net earnings of approximately \$19 million, a gain of \$21 million year-over-year.

After continuous years of cost optimization efforts, expansion of our parts basket and focused efforts on (inaudible) part identification, our aftermarket segment continued to deliver exceptional performance an exceptional quarter with \$157.1 million in revenue and \$32.8 million of adjusted EBITDA, up 16% and 11% year-over-year, respectively, contributing to yet another record year.

Reducing working capital and enhancing liquidity remains a key focus for us. While we continue to manage through seat supply disruptions at New Flyer, which also affects NFI parts, which elevated our inventory balances, we did see positive impacts from the benefits of public customer improved contracting terms and conditions. This included prepayments and mount payments incorporated into many bus contracts. Overall, we saw a small decline in liquidity during the quarter, reflecting the put and takes of these various items.

On Slide 8, we show the continued improvement we've managed to recover in overall supply chain health. The chart shows our high and moderate-risk and high-impact suppliers. As we've moved at the end of 2024 and the first few months of 2025, we continued to see overall improvement. There were numerous actions we've taken to drive these improvements including an active supplier development and monitoring programs. We currently have just three companies that are considered high risk, high impact, down from 50 at the peak in 2022, with medium-risk suppliers continuing to drop as well.

On Slide 9, we detail one of these high-risk suppliers and the most distant supplier in 2024, our prior North American Transit Bus seat provider. Let me take a step to explain how we go out here. This is a long-time supplier that has been a valued partner for us for over 20 years and consistently performed during that time. Like their entire industry, the supplier had to decrease production during the pandemic and the supply chain held -- that continued from that. As markets recovered in 2023, they increased production to match rising demand for buses. This happened at the same time as they were in the process of moving to a new upgraded facility, and they also saw a rise in turnover of key staff. These factors led to their operations falling far behind schedule, resulting in significant deliveries to a variety of class OEMs in the third quarter of 2024.

Since then, NFI has worked with the seat supplier and in coordination with other impacted customers of them, we created an advisory council and assisted in the development execution of a recovery plan. This includes dedicated on-site support from

NFI team, the engagement of external consultants and adjustments to our (inaudible) scale to lower demand in the period to allow the supplier to recover.

We've also onboarded a New Flyer America compliance seat supplier who starts delivering seats early in the second half of 2025 to diversify our supply base. It is important to note that changing suppliers once a bus is engineered, is on the production line or semi-completed off the line, it's not an option on each bus order to change suppliers.

The graph on the right shows the improvement in the number of offline New Flyer buses missing seats in our inventory. This peaked at the end of November and has since come down to levels just below where we were at our third quarter earnings call. Based on year-to-date performance and the ongoing action plan, we anticipate sustained improvement in seat supply performance, as they are projecting to be delivering seats to the production on schedule at the end of the second quarter, while also committing to lowering the inventory of the buses that are missing seats.

Now turning to Slide 10, we review our fourth quarter deliveries. We had another record quarter of low-floor cutaway bus deliveries, up 6%, while transit bus and coach deliveries were both slightly down in the quarter. Transit deliveries reflect the impact of this seat supply disruption, with planned deliveries in 24 Q4 pushed into 2025. In total, seat supply disruption led to a loss of approximately 100 equivalent units of planned fourth quarter deliveries.

Quarterly production rates were also lower as we managed our finished activities on buses that we're missing seats. Coach deliveries reflect a reduction in the fourth quarter public and private sales, with a carryover inventory expected to be sold in 2025. Offsetting this decline was an 11% year-over-year increase in the average selling price of heavy-duty transit buses and a 25% year-over-year increase in the average price of a motorcoach. This also coincided with the improved manufacturing gross margins.

I'll now turn it over to Brian Dewsnup to discuss our results in more detail. Brian?

Brian Dewsnup^ Thanks, Paul. Just picking up on Slide 11. Aftermarket saw another strong quarter with gross margins of 28.4%, down slightly year-over-year, reflecting sales mix and the impact of some larger retrofit programs in North America. In the manufacturing segment, gross margins declined slightly year-over-year from the previous quarter. This decrease in margin was primarily due to higher depreciation and amortization costs plus lower overhead absorption linked to the lower bus deliveries, primarily linked to the seat supply disruption.

Slide 12 walks through year-over-year changes in adjusted EBITDA within our reporting segments. Manufacturing EBITDA was up by \$24.1 million, even with these lower deliveries. The increase reflects favorable sales mix and improved pricing, plus an \$11 million normalizing adjustment to reflect the nonrecurring impact of seat disruption and associated production and labor inefficiencies. Our aftermarket segment continued to

deliver healthy EBITDA growth driven by sales volume including sales for other bus manufacturers, pricing adjustments and favorable product mix. Corporate adjusted EBITDA improved due to the positive impacts of foreign exchange and lower incentive compensation accruals.

Turning to Slide 13, you can see annual, or LTM adjusted EBITDA for both manufacturing and aftermarket segments from 2020 to 2024. Both segments have seen strong improvements. Aftermarket adjusted EBITDA achieved a record of \$139.2 million in 2024 and manufacturing has seen strong recoveries from the lows of 2022 with \$126 million year-over-year improvement in 2024 and further growth projected in 2025.

Moving to Slide 14. The chart depicts the company's quarterly EBITDA since 2020 Q3. The dark blue bars on the chart tell the story of NFI's manufacturing experience over the past few years. This includes the impacts of the pandemic, related supply chain challenges, rapid inflation and the subsequent recovery and growth trajectory that we saw in 2024. Our aftermarket segment has remained steady throughout this period, displaying the business' consistency and its ability to dynamically adjust pricing in response to changing market factors.

On Slide 15, the company reported net earnings for the period of \$18.6 million, a \$21 million improvement from the same time last year, representing earnings per share of \$0.16. On a full year basis, we saw an improvement of 97.6%. We've also provided a chart on this page that reconciles net earnings to adjusted net earnings. This includes normalization adjustments including the \$11 million for covered labor and overhead costs related to seat disruption, which is shown as other. A full conciliation of these adjustments is available in our MD&A and press release.

On Slide 16, quarterly free cash flow was positive, with a slight decrease year-over-year driven by taxes and the acquisition of intangible assets. We did, however -- we did have a significant [million] investment in working capital, reflecting the impacts of higher working capital balances and the unwind of some advancements in our deferred revenue.

Slide 17 outlines inventory and production rates. In the quarter, we saw a decrease in raw material balances, while work in process and finished goods were flat. Typically, we would see a more pronounced decline in fourth quarter inventory as it is our seasonally busy quarter. The levels remained elevated primarily due to seat disruption. Line entries also remained flat from the previous quarter, primarily due to consciously slowing down production as we aim to improve seat supply performance and with the seasonal timing of holidays.

On Slide 18, we recap our total leverage ratio and covenants. You can see the significant decline in our leverage ratio on the chart from over 14.1x at the end of the quarter of 2023 to 4.3x at the end of 2024. We continue to expect to recover to our target total leverage ratio in the range of two to 2.5x by the end of 2025, well within our bank covenants, which are shown on the chart.

As a reminder, this calculation excludes our convertible debentures. Liquidity and cash management remain a top priority as we navigated through the seating headwinds and continue our production ramp-up. These efforts include the pursuit of customer prepayments and deposits managing payment terms with suppliers. We proactively obtained another temporary waiver from our credit syndicate partners that allowed us to access the additional \$50 million under our secured facilities should we need it. This is in place until March 31, 2025.

We did this out of an abundance of caution as we expect that our current liquidity, combined with additional customer payments, will be sufficient to fund operations. Subsequent to quarter end, we resumed the \$75 million receivable financing program with CIBC Capital Markets. This enhances NFI's financial flexibility, accelerates cash flow from receivables, supports total liquidity and lower interest expense.

Our senior credit facility matures in April 2026, becoming current in April '25. We continue to actively work on our broader capital structuring plan with the goal to address our credit facilities timing, improve our overall liquidity and lower total interest expense. That is a primary focus for us in the first half of 2025. As we've seen our overall results improve, we believe we have multiple options available to us in the debt markets and are very encouraged by the discussions we've had so far.

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

Paul Soubry^ Thanks, Brian. As we look to 2025 and beyond, we believe that NFI is poised for a strong recovery with growth in revenue, adjusted EBITDA, free cash flow, ROIC and net earnings. Over the next few slides, I'll walk through the key factors underpinning this continued recovery, our expected growth and comment on a few of the key risk factors and dynamics in our current operating environment.

On Slide 20, we look at our record orders in 2024 of 9,489 equivalent units. In the fourth quarter, we maintained our momentum with several New Flyer wins including an order from Washington, D.C.'s Metro for up to 500 buses, with an initial firm order of 100. This order displayed the strength of our propulsion agnostic offering as an example, as it included both diesel electric hybrid and battery electric buses. MCI had a major win in the fourth quarter with a 5-year contract from Ontario's Metrolinx, that included 80 firm orders for clean diesel motor coaches and options for potential future orders.

During the quarter, we also shipped our very first electric motor coach from our Pemba North Dakota facility, a major achievement for that plant. On Slide 21, you see the culmination of these orders driving our backlog at the end of the year to record heights of over 15,000 equivalent units valued at over \$12.8 billion. We're essentially sold out in our North American public markets for '25, and we're selling well into 2026, holding option orders that now extend all the way out to 2030. NFI continues to retain a strong order book that will help propel recovery and grow further into 2025 and beyond. This view is partially driven by data on Slide 22, which highlights the increase in average sales price, or ASP, per equivalent unit in our total backlog including both firm and option

orders. BASP has increased for both heavy-duty buses, the dark blue line; and motor coaches, the light blue line.

Year-over-year, ASP for heavy-duty buses was up 11% and up 71% since 2021. ASP for motorcoaches was up 25% in the year and 51% over that same time period back to 2021. These average sales price increases were driven by a combination of a higher ZEB orders -- inflation-adjusted pricing and significantly improved bid margins reflecting the improved competitive environment for us. These higher selling prices will translate on to our income statement as we move through 2025, 2026 and future year deliveries.

Our backlog has shown tremendous growth, and we expect demand to continue as we show key demand metrics for North American public markets on Slide 23. We ended the quarter with a total active universe of 7,094 equivalent units including 3,657 in bids submitted and another 3,437 of EUs and bids in process. The black on the chart overlays the timing of awards versus active bids at time. You can see the correlation between the bids submitted in the light blue and the awards. Typically, with a lag of a couple of orders from submission to award, we anticipate current bidding activity will continue to help further grow our already record backlog. Our 5-year expected public bid universe which is compiled from the customer fleet replacement plans, remains very strong at 21,797 equivalent units.

Slide 24 provides insights into our book-to-bill and option conversion ratios. Our option conversion ratio has improved significantly since the low in 2022 and now hit 76.3% in 2024. Our book-to-bill ratio continues to remain well above 100%, driven by increasing order volume and exercised options. We anticipate both ratios to remain strong through 2025 and beyond.

I'm now on Slide 25. Before I get to our deep guidance ranges for 2025, I wanted to provide some key factors that drive our expectations. I just walked through the strength of our backlog and order book. Not only have we effectively sold out 2025 North American public volumes, we also expect improvement in the per unit economics, as we've seen better average selling prices and resulting margins as the competitive environment has improved for us.

Our strong aftermarket business gives us a solid foundation for performance in 2025. While our overall supply chain health has been improving, we actually continue to manage our way through the seat supply disruption that has impacted deliveries for the last six months.

We do anticipate improvement in 2025 production, but levels will remain somewhat muted as we take a conservative approach on production ramp-up. We do this to ensure that we do not cause additional supplier production inefficiencies that would result in more offline, unfinished losses. As you've heard from us on previous calls, the U.K. market demand for Alexander Dennis has not developed as we had hoped, leading expectations that we will see lower than planned deliveries in the market in 2025.

While this is a challenge, the U.K. generally offers lower margins than our North American business, and thankfully, the aftermarket business in the U.K. and international markets continues to perform very well. It's important to note that our 2025 guidance range does not include the potential impacts from U.S. or Canadian counter tariffs. I'll discuss that again in a few slides.

Slide 26 provides some additional context on seasonality and profitability. The graph has our fiscal year 2020 adjusted EBITDA by quarter. We saw 56% of our full year EBITDA in second half of 2024, and we expect a similar type of profile in 2025. Our first quarter is typically the slowest quarter, although we expect significant year-over-year improvement. Sequentially, we expect the potential for a slight decrease from the fourth quarter of last year.

On the right-hand chart, we show our improving margin profile. Our gross margin per equivalent unit, which includes cutaway medium-duty, motorcoach and heavy-duty transit buses for both North America and international markets saw some small improvement year-over-year, but it was impacted by the seat disruption and delivery timing in the fourth quarter. We project this metric will show strong growth in 2025.

Slide 27 summarizes our now provided guidance ranges for 2025. We expect to generate adjusted EBITDA between \$320 million and \$360 million from revenues of \$3.8 billion to \$4.2 billion, with 35% to 40% of our manufacturing revenues coming from zero-emission buses. We expect capital expenditures of between \$50 million and \$60 million, and a return on capital between 9% and 12%. The 2025 guidance ranges for the financial metrics provided have taken into consideration the year-to-date performance seat supplier recovery, which I'll admit has taken longer than we expected, our outlook, combined with the assumptions that I just walked you through.

On Slide 28, I want to touch on the broader macro environment, especially the fluid and dynamic tariff situation. While still developing, the potential for 25% tariffs on imports into the U.S. and Canadian counter tariffs of 25% on imports from the U.S. into Canada remains a real possibility. As we note, there are now 25% tariffs in place on steel and aluminum imports into the United States. We are taking numerous actions to prepare and respond to these tariffs by adjusting supply sources where possible, leveraging our localized production facilities on both sides of the border and regionalized aftermarket parts distribution networks, and continue to work on contractual terms of our firm orders. We have just also moved as much bus inventory as possible to the appropriate jurisdictions. This will help any lower near-term impact of tariffs.

So, what's the potential exposure at NFI for tariffs? Within the New Flyer business, approximately two-thirds of our production is already 100% completed in the United States for American customers. They, therefore, have lower tariff exposure on the outset. For the other a third that has started in Canada in terms of building a shell approximately half of those buses are finished for U.S. -- in the U.S. for customers, while the other half back to Canada for our Canadian customers. These buses would obviously have larger tariff exposure.

As we announced last year, we are now actively working our All-Canadian Bus Build plan to allow us to build full buses in Canada. This project is on track and on budget, and it's planned to start manufacturing full Canadian build buses in the fourth quarter of this year, and we will build that capacity through 2026. This too will help lower tariff exposure for Canadian imports.

Through the enhanced clauses and provisions of our public agency contracts, we currently anticipate passing on the tariff impact to those public customers. Public coach is just like transit bucket. However, there are no domestic U.S. producers of motorcoaches. NCI is the only supplier of coaches for Buy America contracts, which we start in Canada to build a shell and finish in the United States.

In the private coach market, we built completely in Canada, similar to our main competitor located in Quebec, while other motorcoach OEMs build and import buses from Europe. We anticipate it will be difficult to pass on any increased costs resulting from tariffs to a very price-sensitive private customer, and we do not have the same contractual protections in the private market as we do in the public markets.

In addition, importers from Europe may see pricing benefit compared to the Canadian importers unless there is a corresponding increase in tariffs applied by the U.S. government on European imports, of which there are strong signals that may happen. It is difficult to project the exact financial impact of tariffs. We are monitoring this closely and working with industry groups and our lobbyists to determine the best path forward.

As mentioned in the short term, we have moved most of our private market coach inventory to the United States in advance of any potential tariffs being impacted. We will continue to collaborate with our customers, our suppliers, our industry partners and government partners on the tariff front to do as much as can to alleviate the risks, and we will provide updates as things develop and how it relates to NFI. We are also working very actively with the Canadian government on what they call the remission process or effectively the exemptions of tariffs for U.S. materials and finished goods that we import into Canada. We are working the same process for ARBOC and Alexander Dennis buses that we make in the United States and imported to Canadian customers, where no domestic Canadian provider exists.

Finally, there's also been questions regarding U.S. funding for transit based on language in recent executive orders from the United States. Overall, we anticipate that all appropriated funds from the U.S. government for committed orders will be honored. For the most part, this covers our firm backlog and recall that only -- we only add in order to firm backlog once we have received a purchase order. There's been no question increased scrutiny on electric bus funding at a federal level, and this is something we are monitoring closely with the FDA and our industry groups.

While this may result in a change to the models of our incoming orders, our propulsion agnostic approach of offering multiple propulsions helps offset those concerns. We can

provide whatever products make sense for our customers. Generally, ICE production, historically and currently has been less demanding and less common to build than zero-emissions, which provides an opportunity to increase throughput should we see a significant shift in model demand.

I will mention that should tariffs be implemented over a long period of time or funding profiles change, there is potential for decrease in total order sizes. This situation may develop if bus prices increased to where customers may not have the appropriate funding required to purchase buses per the original plan due to expected higher average selling prices. Therefore, we may see less buses per order.

In closing on Slide 29, let me provide a few comments to recap, and then we'll open the call to questions and answers. We have a very strong finish in 2024 with significant improvements in overall adjusted EBITDA and net earnings, even as we navigated a very unfortunate and significant supply chain disruption in our seat supply. Our total backlog of \$12.8 billion is the largest in our history, and we have very strong firm orders for 2025 and 2026 and a very active bid plan. Our competitive positioning in North America remains strong and supports our improving product margin profile. Aftermarket continues to shine, providing steady, recurring revenue and a solid foundation for '25 in future cash flow generation.

In the U.K., the competitive dynamics have changed, as I described. We've introduced a completely new and refreshed lineup of bus models, and we are aggressively actioning initiatives to lower our costs. We continue to advance efforts to improve our competitive positioning, but we do not -- we do anticipate lower deliveries in 2025 from the U.K. part of our business.

The political environment as we all know is fluid with changing dynamics, and we'll continue to take all actions possible to ensure our appropriate response. We look forward to 2025, where we anticipate growth in revenues adjusted EBITDA, earnings and return on invested capital. We're off to a very good start in the first 72 days of this year.

Kevin, please open the line now for questions and provide instructions to our callers to ask questions. Thank you.

QUESTIONS AND ANSWERS

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

Chris Murray^ If I can ask the first question, just -- so thinking about -- Paul, you made some comments about the things in 2025 and sort of the recovery plan. So, I was wondering if we can talk a little bit more in detail. You've mentioned there is -- the seat supplier seems to be getting itself addressed. You did mention there's a new battery supplier that could be potentially new.

So just wondering a couple of things. One, if you can walk through kind of the details of the cadence on how you think this will evolve over the year absent other factors. But then more importantly, what I'm trying to figure out is what would the exit rate look like as we get to 2025, and we start looking at what I would hope to be a more normal operating environment as we go into '26 and '27?

Paul Soubry^ Well I think you've actually nailed it in your question, Chris. Like when we had done our plan in the fourth quarter of last year as we headed into 2025, we expected a certain ramp-up across each part of our business. As I described, the U.K. has come off a little bit, so we've downgraded that. New Flyer, we'd expect a certain run rate and a certain zero-emission volume.

The seat supply, which really hit us hard in the fourth quarter of last year and continued through the first quarter, we've muted some of the production increases that we had originally planned. Because as I described and I think Brian described, the last thing we want to more offline buses waiting seats, which sucks up working capital and is also very disruptive to operations.

So, from that perspective, the year is effectively sold out with every slot with a firm order. So, by the -- a little bit, we've changed the curve of our production ramp. MCI has a good balance between public and private customers. I said the risk there is depending on how the tariffs play out may change that mix and may change some slow down -- potentially some of the private motor coach work.

The parts business is not really seasonal. It continues to be very solid quarter-by-quarter, and we've seen increases there. The ARBOC business continues to do really well. They ramped up their production volumes significantly last year, and we have further growth planned for this year. It, too, is effectively all sold out. So, when you say exit rate, what do you mean in terms of production volume, it will be higher in the fourth quarter than it is in the first quarter for sure. Is that what you're referring to?

Chris Murray^ Yes. So I think if you were to normalize as you kind of get up to, call it, line entry rate or whatever if you're talking about 5,000 buses for '25, roughly, would that be kind of the run rate we'd enter '26 at for the full year '26? Or would we be above that, I guess is what I'm trying to understand?

Paul Soubry^ Well yes, that's a good point. So, let's take it more because mix has a big issue in here. And depending on what happens to kind of zero-emission demand in '26 relative to both funding and/or the tariff impact, we expect -- with the guidance now of \$320 million to \$360 million for 2025, we expect a run rate lead in 2025, somewhere around \$400 million adjusted EBITDA. So, our fourth quarter potential EBITDA somewhere in the range of \$100 million. There's no question we have lower volume than what we originally expected a couple of years ago, but the margins are significantly better given the competitive dynamics.

Chris Murray^ Okay. That's helpful. Then I don't know if you or Brian want to take this one. But Brian, you did allude to the fact that leverage should get down to two to 2.5x by year-end, which I thought it was pretty impressive considering where you're coming from. Can you run us through a little bit of what you're thinking about? Because you did mention some refinancing opportunities near term. I know I get this question all the time, so I'll just ask it again about equity. But if you could talk about kind of the debt restructuring and any need for equity, that would be great.

Brian Dewsnap^ Yes. So good question. I think from my previous comments, we have -- we're keeping a very close eye on this, of course. We have a number of options, debt options available to us, and we think we'll be able to satisfy any liquidity needs and taking care of any refinancing work through those debt options. And just kind of reiterate from Q3 that, at this point, we don't see the need for any additional equity.

Paul Soubry^ Chris, let me add some color to Brian. As we sound production and change schedules based on seats, the affected seat supplier is somewhere -- was somewhere in the neighborhood of 60% of our supply. So, we have other seat suppliers for the rest of our production. So, as we slowed that down -- and when you slow it down in a relatively short window, you end up with material on its way into that original production schedule. So, we still have bloated spare parts before they start to hit the production line, and we have bloated, approximately 100 units sitting at the fence, waiting the finalization of those seats.

So, in addition to the increase in volume through the year, the better margins, we have a natural burn down, if you will, of excess working capital that sits in our business. Those two things -- and when you overlay the strong parts of our business like NFI Parts and ARBOC, there is a significant delivering potential that's happened.

As Brian said, we'd be not honest to tell you that we're not actively looking at all kinds of different scenarios relative to our current financing.

Operator^ Our next question comes from Krista Friesen with CIBC.

Krista Friesen^ Just to dive in on the seating supplier here. So, you've got an additional seating supplier coming online at the beginning of H2. Can you walk us through what you're thinking that ramp-up will look like for that seating supplier? And when would you expect to kind of reach a normalized level of receiving seats from all of your suppliers now?

Paul Soubry^ Thanks, Krista. That's a good question. It's hard to imagine one supplier of seats has such a dramatic impact on our business. But the context is highly tied buses with specified seats, not just who it's from but the style, how they're mounted into the bus and so on and so forth. And as we've talked about many times, once you start the design of a bus based on the spec from a customer, once you start the sourcing of it, once you start the building out, you can't change suppliers midstream.

So in addition to this very active effort with NFI, as well as, quite frankly and honestly, a really good cooperation from our friends over at Gillig, who are also affected by this, we have -- I think we have resolved the core problem and we will start to see this supplier deliver -- they have been delivering better, but can be fully caught up. They tell us by the end of April. We've handicapped it to say probably by the end of the second quarter.

Now the new supplier that has brought on not only has set up capability, but also have to get -- and as you know from bid, to award, to building those buses, can be 12 to 18 months. So, it's not like we can flip the switch very quickly. We have tried to level load -- and of course it is a decision the customer has to make, who those seats come up. So, our current projection is that by the end of the second quarter, we are back to this seat supplier plus the other two suppliers delivering to point of entry or point of installation on the line by the end of the second quarter. It is way better than it was. It's unfortunately not as we would like.

Krista Friesen^ Okay. Great. maybe just on the liquidity front. It seems that NFI managed quite successfully through the worst of the seating issue in Q4 in terms of liquidity quarter, finishing the quarter at \$127 million, I think. What caused you or what are you seeing that caused you to seek an extension on that waiver for Q1?

Paul Soubry^ Well I'll start off and then Brian would add some piece. Remember, in the fourth quarter, you don't really know how deep -- how bad the problem is until you get into it. So, we had certain expectations in the fourth quarter of seat supply and then we ended up with significant buses offline for unplanned capital tied up.

Now overlaying that, the process that started over a year ago when the White House, the administration, was really disappointed in the FTA and our entry around the way contracting work and how more expensive buses were having to be funded, working capital funded, by all the OEMs, which then had a ripple effect on the supply chain. That task force that was set up APTA, I have to tell you, is the most effective task force I have ever been involved with. Huge engagement and sponsorship by the FTA, active involvement by roughly the 25 largest transit agency CEOs and then the supply community. And so, if we sat here and did a diagnostic on our current contracts, we didn't have any milestone payments before or advanced payment bullets on contract type things and so forth. That is now a major change to our industry that will pay -- for us as an OEM community going forward.

The second thing is we made some conscious decisions not to keep the light of what we originally thought for this year, and therefore, slowed down the incoming material where we could. So those two things transpire to mitigate some of the damage quite significantly. Had we not had those, we would have way more bloated inventory and working capital.

So, Brian, I don't know if you'd add any color to that as well.

Brian Dewsnup^ Yes, just to address the question regarding the waiver. I just -- Paul mentioned that our inventory going -- bridging over the year-end was higher than we would have expected or normal. We just felt it was prudent to go in and pull a bunch of different levers in case the recovery of the seating supplier and the shipment was delayed. So, you saw a couple of things we mentioned. One was the waiver through the end of the first quarter.

We just thought it was prudent to go ahead and do that. Our syndicate is very supportive of us, so that was something that was relatively easy for us to do. You would have also seen the -- subsequent to the end of the year, we restarted the AR program, which brought some additional liquidity into the business. Then we've mentioned kind of over the past while, been aggressively pursuing milestone payments and we've been working with the supply base. And so, what you're really seeing there was, in an uncertain world, you need to make sure you have as many tools as you can to provide as much liquidity as you can.

So, we worked on kind of all of those fronts simultaneously just to make sure that we had enough in the business that we could orderly go out and address the long-term liquidity and the long-term refinancing. So, we wanted to make sure that we did that. So, it was an abundance of caution to go out and work with the banks on that.

Krista Friesen^ Okay. And just one last one, if I could. Just to confirm, all of your products right now whether it's the motorcoach or the transit bus, they are compliant under USMCA right now so they would be part of the rental April 2nd?

Paul Soubry^ That's correct, Krista.

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

Cameron Doerksen^ I want to ask a question about, I guess the funding environment in the U.S. Obviously a fair bit of uncertainty now with the new administration. You mentioned your expectation is that all the firm orders that you've got with U.S. transit agencies would be pretty safe as those are allocated funds. How are the options treated? I mean sort of my understanding was that the options over the next number of years would also be kind of funded out of the current funding bill. So maybe just sort of discussion around how those options might be impacted by any changes in funding decisions by the U.S. administration.

Paul Soubry^ Yes. Thanks, Cameron. So, if you think of -- and there's different buckets and different colors of money, so let's kind of stay out of which funding vehicle happens. But at the highest level, a customer wants to put in an RFP and they work their methodology of local financing, the match of roughly 20%, and which program, whether it's formula funds or Lo-No or whatever the federal program is, and they go up and get that money allocated.

Once it's allocated, then to put in a contract that needs to be appropriated. The money that's appropriated specific to those contracts is only the firm portion of it. The challenge then comes now depending what the administration does relative to, let's say zero emission or whatever dynamic, both the quantum of funding but also need for certain types of products. The debate then comes to, as we move through '25 and '26, where there's a very high percentage of firm contracts where money is already appropriated, what we don't yet know is what's going to happen to the money that's allocated but not yet appropriate. And it would be prudent to even try to opine on that. I mean we're all watching (inaudible) and other initiatives in the U.S. to relook at the size of government, to relook at where the money is being spent. There's clearly a different tone from the administration on zero-emission vehicles relative to ICE vehicles.

So, the good news is we have time because we have a very, very strong firm order book over the next couple of years. The other good news to us is that if the funding changes from, let's say zero-emission focused to who knows hybrid or even back straight to pure ICE. We also offer -- there's a lot of products where we are the only provider for a certain model given the changing and competitive dynamics. So, as I say there's going to be a change based on all the stuff that's sold in Washington, the short term, let's call it, '25, '26, there really shouldn't be that much impact on our planned production schedules, at least for public customers. Could we see the size, the total size or the mix of our option backlog change? Probably, but no idea yet or no indication of what that might mean.

Cameron Doerksen^ Okay. That's helpful. You sort of mentioned the competitive environment, you've been asked about this in the past about the potential for a new competitor coming into the U.S. market or North American market broadly. It seems like that's still a number of years away. But we've had a recent, I guess order success from a new competitor in the Vancouver market, I presume that maybe you guys are bidding on that as well. So, any updated thoughts there on the prospects of new competition coming into the North American market in the next few years?

Paul Soubry^ Let's break the business up. So, on the small buses, the ARBOC buses, we really are the only low-floor provider. And at this point, we don't really have any insight or awareness of any inbound or new start-ups, if you will, getting into the low-floors. The medium-class vehicle market has changed quite dramatically because two of the main providers in that space were El Dorado and Vincinity. And Vincinity is 100% on, El Dorado is basically was shut down and is trying to be revised. If we handicapped it, we think the probability of that is fairly low.

So, the medium class vehicle, again we think we're in a great place. On the motorcoach market, remember, there are no U.S. domestic manufacturers. So, there's Prevost in Canada, and then there's importers like -- Daimler makes it in Turkey as does Temsa, and (inaudible) in Macedonia.

So, the tariff dynamic we'll have, I think will play prominently in the private motorcoach market. In the Buy America public market, we are the only ones with U.S. domestic completion capability. So, then the big issue becomes New Flyer. And as you know --

covered us for a long time we went through -- was round and became part of us. Orion went away. BYD showed up and now sits in the funding penalty box. El Dorado went away -- sorry, so all those dynamics. The Solaris did win a couple of trial contracts in the United States where those buses, one, I think in New York and one in Seattle. Those trial contracts of five buses with auctions are going to be made in Poland. There is no indication at this point in time that Solaris is set up in the U.S. yet or in Canada, we know if that to happen. Solaris did win an RFP put out by Translink in Vancouver for a series of trolley buses, some firm, some options.

Our understanding -- and we haven't yet had our full debrief, but our understanding is that their price made in Poland notably different than ours, like I don't mean a little bit, but a lot. So, there's a dynamic of a Canadian domestic competitor, us competing against the Polish import. There are no Buy Canada content rules in that RFP.

So that's the only one we know of any size where there's been an impact to us. We do expect them to show up in North America, and it goes back to us improving our product, our service, our relationship with customers. To think that we won't have competition going forward, it would be naive. So, they're coming, the pace at which they'll actually enter the market. And could the U.S. government's initiative around mix and so forth change the game for them, who knows.

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

Daryl Young^ Just a quick question around the new seat supplier. Can you remind us what percentage of the back half of the year production they're going to represent? Then are they producing today? Is this going to be coming from a new facility? Any just detail you can give us there around maybe any teething pains or risks to them delivering the seats in the back half of the year.

Paul Soubry^ My position and thought is that based on our supply team, the supplier's name is Kiel. Kiel is a very, very prominent supplier of seats to bus and rail and motor coach in Europe. In fact, Kiel is a supplier to MCI today. Kiel has set facilities in the United States to be Buy America compliant. Their designs are, for the most part, proven, and we know them, and we've worked with them a lot. We have a choice of seats is largely the customers, customers have had to be comfortable that Kiel can provide.

We historically have had 55%, 60% from our current troubled supplier and 40% from the other supplier, the other major supplier. So, we have worked hard with our customers and, of course with our current suppliers about adjusting that mix. The portion of our back half of 2025 seats that will come from Kiel is still less than maybe 10% of our business. It is not a massive, but it just adds future competitive tension to the seat suppliers to perform.

Daryl Young^ Got it. Okay. Then secondly, this is a bit more of a hypothetical question. But if we did see a wide-scale cancellation of the ZEBs and orders rebid to ICE, how do you feel about the ability to deliver \$350 million to \$400 million of EBITDA, just given a

big part of the narrative has been higher price points for ZEBs and higher EBITDA per EU?

Paul Soubry^ It's a great question. But for 2025, those contracts are funded, locked and loaded. So, I don't believe that any change in funding dynamics or mix will have an impact on our current year. Could it impact '26 and therefore, option conversion and new wins and so forth? Absolutely. The margins on diesel or natural gas or hybrid are less than we see on zero emission, but they are easier to build through a production line.

So, the trade-off may be lower margin per unit, higher volume through the facility. And so, if you just look at the sheer size of the backlog or even the bid universe both active and expected, if the game changes on mix, net-net, I don't see a massive change in volume. You still have fleets throughout North America that are trying to renew their fleets.

When there's a large component of it being federally funded and the local operators pay 100% of operating and fuel costs, they're motivated to continue upgrading and changing their fleets. And so maybe part of it is good planning and good strategy and part of it is good luck. But our belief that having production lines that are agnostic and portfolio that we can sell the same bus, whether it's diesel, natural gas, electric, battery, fuel cell whatever that will prove very prominent.

We have had many supporters show up during the back days that were just zero emission and could sustain production lines. We have one competitor that's pulled out of the U.S. Buy America market and has already made public statements that they're only going to do ZEBs going forward. So I'll go back to my statement, mix may change, margin per unit is different, but volume has the potential to increase. It has really no impact on our aftermarket business either because that is about supporting an installed fleet that's already there.

Daryl Young^ Got it. That's helpful. Thanks for the comprehensive presentation, guys.

Operator^ There are no further questions. So, I'd like to turn the call back over to Stephen for any closing remarks.

Stephen King^ All right. Thank you. Thanks, everyone, for joining the call today. As always, do reach out to us with any time with questions. And please do check out all materials on our Investors section of our website. And you'll hear from us soon again thinking about the AGM in May. Thanks, everyone. And have a great day.

Operator^ Ladies and gentlemen, this does conclude today's presentation. You may now disconnect. And have a wonderful day.