

NFI Group Inc. (Q1 2025)
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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 Dewsnup; 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 2025 Q1 Financial Results Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Stephen King. Please go ahead.

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

On today's call we will give an update on our quarterly results, highlighting year-over-year improvement across numerous financial metrics, the strong demand environment for our products and another increase to our record backlog. We'll also provide an update on the operating environment including our current assessment of tariff and government funding dynamics and some insights into our near and longer-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 also call out the slide number as we go.

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

We advise listeners to view our press releases and other public filings on SEDAR for more details. In the appendix of this presentation, we have provided a list of key terms and definitions that will be used on today's call. A reminder that NFI statements are

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

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

Slide 5 provides some brief insight into NFI's product and geographic mix and other milestones.

I will now pass it over to Paul to provide an overview of NFI's results for the first quarter.

Paul Soubry^ Thanks, Stephen. Good morning, everyone. Thank you for joining us today. Before we go through our Q1 results, I'd like to reflect on a few key points. We started 2025 and saw continued momentum that we experienced in the fourth quarter of 2024. Our Manufacturing segment margins have improved as we expected, and the aftermarket business remains a very strong contributor. We achieved several major milestones in the quarter including our highest ever zero-emission deliveries and yet another total backlog increase driven by strong quarterly demand. We continue to work our way through the specific seat supplier related disruption, and we remain confident in our detailed action plan to address this issue.

As announced on Wednesday we entered into a new \$845 million senior secured credit agreement that provides us with improved covenants, increased liquidity, and greater financial flexibility and lower interest costs. We are very pleased and appreciative of the support from our syndicate banking partners on this new agreement, and we will continue to work on other opportunities to increase our total liquidity and lower our overall interest costs.

I would like to take a minute to applaud the new U.S. administration's announcement this week for funding apportionments for fiscal year 2025 programs. This announcement will support investments in transit fleets and jobs across America while modernizing public transit systems with new buses that are more efficient and provide cleaner air for our communities. This major announcement provides greater confidence in realizing the value of our record backlog as the largest bus and coach manufacturer in the United States, with nearly 4,000 NFI team members in America, we look forward to working with our customers to manufacture, deliver and put into service new buses and motor coaches.

I'll now move to Slide 7 for a summary of our Q1 results. Starting with demand. In the first quarter, we recorded new orders of 2,523 new equivalent units, which highlights the continued strength in demand for buses in our market. Our total backlog comprised of both firm orders and options has now reached a record \$13.7 billion with a total of 16,527 equivalent units. This growth continues to be primarily driven by North American public

transit agencies and coach operators with the U.K. market experience rather than tough conditions and had very few new awards in the quarter.

Our quarterly book-to-bill ratio was 139.3% and our app option backlog conversion rate remained steady from the last quarter, reaching 76% on an LTM basis, which is exactly as we had expected. These financial results demonstrate NFI's continued momentum and growth. We achieved an 84% year-over-year increase in quarterly adjusted EBITDA. And although we experienced a net loss of \$6.5 million in Q1 2025, we saw a year-over-year improvement of \$2.9 million. Reducing working capital and enhancing our liquidity continues to be a company-wide focus. Our inventory and net working capital levels dropped from the previous quarters, helping support a slight increase in overall liquidity.

On Slide 8, we show our supply chain health from the end of 2020 until now, highlighting high and moderate risk high-impact suppliers. We continue -- sorry, we currently have just two companies considered high risk high impact, down from 50 at the peak in 2022. This is also down on supplier from the previous quarter as a supplier that we are monitoring has addressed much of our risk concerns.

On Slide 9, we provide an update to one of these high-risk suppliers and the most disruptive over the last number of quarters for NFI, our largest North American transit bus seat supplier. Our action plan remains focused on helping the supplier get back to full health. NFI, along with one of our key competitors, and cooperation with external consultants have dedicated onset resources at the supplier's facility to help them recover.

While there have been improvements since the November peak, with buses missing seats down to 91 equivalent units at the beginning of May. The disruption has required that New Flyer run at lower line entry rates in the first quarter. Frankly, some of this challenge has been offset by a new Buy America compliance heat supplier coming online earlier than expected.

This new supplier which is new to North America but not new to the world, is now delivering to our manufacturing lines with a significant ramp-up plan in the second half of the year, the result is that we'll have three North American Buy America suppliers, helping diversify our risk going forward for this critical supply component.

It is important to reiterate that changing a seat supplier once a bus has been engineered and is on the production line or nearly complete and offline is not an option as each bus order and the parts related to the seats are very different. We had originally hoped for a full recovery from the supplier by the end of the second quarter. but unfortunately, it's expected this may drag a bit longer. This supplier issue does not change our overall expectations or guidance for our 2025 results.

I'll now turn the call over to our CFO, Brian Dewsnup, to discuss the results in a little bit more detail. Brian?

Brian Dewsnup^ Thanks, Paul. Picking up on Slide 10, we'll take a look at our first quarter deliveries. Transit deliveries were primarily down due to lower U.K. volumes, reflecting the competitive market environment in that region. In North America, deliveries were up year-over-year but were negatively impacted by seat supply disruption.

We saw a significant increase in transit ZEB deliveries, where we received a higher dollar margin per unit. This, combined with our overall stronger profile of our total backlog, helped drive a 41% year-over-year increase in the average selling price for heavy-duty transit buses. MCI recorded an increase in North American deliveries and saw a 16% year-over-year increase in the average coach selling price.

We had another strong quarter for low-floor cutaway buses with deliveries up 11% and the average selling price up 20%. Turning to Slide 11. Aftermarket saw a relatively flat quarter with gross margins at 28%. This was down slightly year-over-year, reflecting unique sales mix and a slight reduction of program revenue in North America that was elevated in 2024. In the manufacturing segment, gross margin saw a significant increase year-over-year going from 3.7% to 7.4%, even with lower total deliveries. This reflects our improving backlog profile now flowing through the quarterly results and geographical mix, lower U.K. deliveries.

Slide 12 walks through year-over-year changes in adjusted EBITDA within our reporting segments. Manufacturing EBITDA was up by \$35 million, reflecting favorable sales mix and improved pricing. Similar to our previous quarter, it includes a \$10.6 million adjustment to reflect the nonrecurring impact of seat supply disruption and the associated production and labor inefficiencies. Our aftermarket segment saw a decline in EBITDA driven by reduced sales volume, primarily from North America program revenue. Corporate adjusted EBITDA declined by \$2.3 million, primarily due to higher SG&A expenses.

Turning to Slide 13. You can see an LTM adjusted EBITDA for both manufacturing and aftermarket segments from 2021 to 2025. Both segments have seen strong improvements. Our Manufacturing segment recovery has been especially notable with a \$141 million year-over-year improvement on an LTM basis.

On Slide 14, the company reported a quarterly net loss of \$6.5 million, which was a \$2.9 million improvement from 2024, representing a loss per share of \$0.05. This improvement is a reflection of our improving gross profit, somewhat offset by higher interest expenses and lower unrealized foreign exchange gains. We provided the results on an LTM basis, which show a nearly \$100 million improvement. The chart on the page reconciles net earnings to adjusted net earnings. The normalizing adjustments include the unrecovered labor and overhead costs related to seat disruption, which is shown in the other category. A full reconciliation of these adjustments is available in our MD&A and press release.

On Slide 15, quarterly free cash flow was positive with a strong increase year-over-year, driven by many of the same items that impacted adjusted EBITDA. In addition, we also had a \$23.7 million of cash inflows from working capital, reflecting the impacts of lower inventory and increases in deferred revenue.

Slide 16 outlines inventory and production rates. In the quarter, we saw a decrease in raw material and work-in-progress balances, while finished goods were up slightly, again reflecting delays in seat supply. This decline in inventory reflects the impact of higher quarterly ZEB deliveries, a reduction in safety stocks as supply chains improve and lower U.K. production in response to market conditions. Line entries saw a decline from the previous quarter for two primary reasons, deliberately operating at lower rates as we aim to improve on seed supply performance and lower U.K. production.

On Slide 17, we recap our new 2-year credit agreement with total borrowing capacity of \$845 million, this new first lien facility replaces our existing first lien North American and U.K. facilities. It improves our overall liquidity, lowers interest expense, and provides improved covenants that are outlined on the table.

In addition, there are certain terms and conditions related to permitted debt balances, distributions, investments, and other items. There are no limitations on our capital expenditures. The term can be extended to four years, and there's also other additional credit enhancements such as an accordion feature in the event that NFI enters into additional subordinated credit arrangements that further improve liquidity. With this new facility in place, we feel we have significantly strengthened our balance sheet. Liquidity and cash management still remain a key priority as we continue to pursue customer milestone payments and actively manage NFI payments terms with suppliers.

As you can see on the chart to the right of the page, our total leverage, which excludes our convertible debentures, has decreased significantly and is well below our incoming new covenants. We continue to expect to see improvement in our total leverage ratio with the goal to achieve our target range of 1.5 to 2.5x.

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

Paul Soubry^ Thanks, Brian. As we look at 2025 and beyond, we believe that NFI is poised for a continued strong recovery with growth in revenue, adjusted EBITDA, free cash flow, return on invested capital and net earnings. I'll walk you through some key factors underpinning this continued recovery and expected growth and comment on some of the key risk factors in our operating environment.

On Slide 19, we had another very strong quarter with an addition of 2,523 EUs in new orders, helping drive 6,500 EUs in LTM orders. This increased our total backlog to a new record of 16,527 equivalent units.

On Slide 20, you can see the makeup of our backlog with 38% in firm orders and 62% in options, which now extend out to 2030. The firm orders gives us significant visibility into

our 2025 and 2026 deliveries, while the options give us runway over the longer term. The black line represents the total dollar value of the total backlog. Over the past 3 years, total backlog has grown by \$9.8 billion, showcasing significant growth that has continued as we start 2025.

We've mentioned our improving backlog profile on numerous calls, and this is again displayed by the data on Slide 21. This chart shows the increase in average sales price or ASP per equivalent unit in our total backlog including both firm and option orders. The ASP has increased for both heavy-duty buses, the dark blue line and motor coaches, the light blue line. Year-over-year average sale price for heavy-duty transit buses was up 4% and up by 67% since 2021. ASP for motorcoaches was up 25% and 51% since 2021 as well.

Now we did see a slight decline in Transit backlog average sale price this quarter as we added some very large internal combustion engine bus orders and had strong zeroes deliveries coming out of the backlog in Q1. Overall, however these higher average selling prices will continue to translate into our income statement as displayed through our Q1 results and as we move through the remainder of this year and well into 2026.

We expect demand to continue, and we show key demand metrics for North American public markets on Slide 22. We ended the quarter with total active bids in process of 5,306 equipment units including 3,655 in bids submitted and another 1,651 equivalent units in bids in process. Active bids have come down from highs seen in 2024, primarily as a result of a significant new order intake and conversion of bids into actual new orders for NFI. The black line on the chart shows those new awards, and you can see the correlation between bids submitted in the light blue and the contract awards to NFI, typically with a lag of a couple of quarters from bid submission to actual award.

Our 5-year expected public bid universe which is compiled primarily from customer fleet replacement plans, remains very strong at 23,139 equivalent units. This demand is driven by increasing fleet age with a very large portion of the North American fleet now well beyond its 12-year life cycle.

Slide 23 reflects our book-to-bill and our option conversion ratios. Our option conversion ratio has improved significantly since the low in 2022 and remaining consistent as I mentioned before, at 76% on an LTM basis. This is driven by increasing order volume and the customers exercising of their options.

Slide 24, we provide some additional context on seasonality in our profitability. The graph shows our fiscal 2024 and Q1 '25 adjusted EBITDA by quarter. In 2024, we saw 56% of our full year adjusted EBITDA in the second half of the year. And based on our performance year-to-date, we expect about half of EBITDA may be close -- sorry, we expect the second half EBITDA maybe closer to 6% of the full year EBITDA in 2025.

As the chart shows, the first quarter is typically our slowest quarter and 2025 is expected to follow the exact same path. On the right-hand chart, we show our improving margin

profile, our gross profit per equivalent unit, which includes both -- sorry, includes all of our buses, cutaway buses, medium-duty buses coaches and heavy-duty transit bus for both North America and our international markets, which saw some significant improvement year-over-year as we've started converting a much healthier backlog into our actual delivered results.

On Slide 25, we summarize our reaffirmed guidance ranges for 2025. We continue to project revenues of \$3.8 billion to \$4.2 billion based on that very strong backlog to drive adjusted EBITDA of USD 320 million to USD 360 million. This 2025 guidance ranges for the selected financial metrics provides that we provided take into consideration year-to-date performance and our current outlook based on a very solid schedule. This 2025 guidance range does not include any impact from tariffs and any changes resulting from possible U.S. funding policy developments, which I will cover in a minute on Slide 26. This situation has continued to evolve since we provided an update in early -- or sorry, in mid-March.

During the quarter and continuing today we are currently exposed to steel and aluminum tariffs primarily related to components and parts import from outside North America and tariffs on our direct imports from China, although these have a smaller total impacts. As we moved into April and May of this year, there has been some increased clarity on tariffs for goods from outside of North America, which has resulted in our suppliers starting to increase their pricing to us to reflect the tariff cost to them. Our production footprint, our Buy America requirements and more localized parts distribution lowers our overall total exposure.

In addition, our bus shelves and finished buses and coaches that move across the Canadian-U.S. border do so under the protections of the existing USMCA. That being said, we do expect bill of material cost increases starting imminently. We expect to be able to pass on the majority of any tariff impact through the enhanced clauses and provisions of our public agency contracts. That process of customer notification and tariff-specific identification is well underway with our customers. We do expect this process [row our] intense negotiation with these customers, and we may not be able to cover 100% of the tariff cost.

In addition, higher resulting prices could see some customers respond by adjusting their total contract sizes, although we expect this would be a small reduction in any unit deliveries. It also means that our backlog and the strength of the backlog should allow us to adjust production in time.

In the private coach market, NFI completely builds private motor coaches in Canada, similar to our main competitor located in Quebec. While all other OEMs that deliver motor coaches in the United States, of import coaches from Europe or Mexico. We anticipate it will be very difficult to pass on any increased costs resulting from tariffs to price-sensitive private customers, and we do not have the same contractual protections as we do in public markets.

It's difficult to project an exact financial impact of tariffs. But we are monitoring this closely and feel less exposed than other OEMs in the automotive or trucking industry, especially those that import significantly from outside North America. We will continue to collaborate with our customers, our suppliers, and work with our industry and government partners on the tear front to as much as we can to alleviate risks, and we'll also provide updates to our shareholders as things develop.

Finally, there's also been questions regarding the funding for public transit and based on language in the recent U.S. executive orders. Overall, we do not anticipate any material impact on our firm backlog as we expect appropriated funds from the U.S. government for committed orders will be honored. Now earlier this week on May 5, the Federal Transit Administration or FDA, announced the fiscal year 2025 funding apportionments to states urbanized areas and travel governance based on the established statutory formulas.

This critical step enables many of NFI's U.S. customers to start their application process as they do every year to the FDA to obtain funding for capital purchase of new buses and the related infrastructure. and NFI anticipates that these funding allocations will directly support future orders and our bus deliveries that begin in 2026 and beyond based on this available money, which also strengthens our role in modernizing America's public transit systems. The evolving market may result in changes to funding going forward, which could impact future orders and option conversions, especially as it relates to our zero-emission buses. This may result in a change to the models of our incoming orders and thankfully, our propulsion agnostic offering on common production lines helps offset concerns here.

We can provide whatever products make sense for our customers and generally internal combustion engine production historically and currently has been less demanding than building zero-emission buses, which provides an opportunity to increase throughput should we see a shift in propulsion system model demand.

Now closing on Slide 27, a few comments to recap, and then we'll open up the line to questions. started in line with our expectations, although we remain challenged by continued seed supply disruption from one supplier and the softer results in the U.K. market. Our margin profile has improved significantly year-over-year, driving substantial improvements in overall net earnings, adjusted EBITDA and return on invested capital.

With a total backlog of \$13.7 billion, the largest in our history and an option conversion rate and a book-to-bill remaining strong, it supports our near- and longer-term outlook. This quarter, we delivered our highest zero-emission bus deliveries in our company's history, reflecting our ongoing capabilities in this space and the fact that ZEBs are a significant portion of our firm backlog. Aftermarket continues to be a very strong contributor, providing steady recurring revenue streams, a solid margin foundation and very healthy free cash flow generation.

Now as you heard on this call and previous calls, the U.K. market demand for Alexander Dennis has not developed the way we had anticipated due to the much tougher competitive and global environment. We saw this in the first quarter, and we expect it will continue to drive lower U.K. deliveries through 2025. However, we have introduced a completely new and fresh lineup of bus models for that market and we're continuing to advance efforts to improve our competitive positioning. This includes a full review of our U.K. footprint, our cost structure at lower delivery expectations.

While this is a challenge, the U.K. makes up approximately 15% of our total revenue and generally generates lower margins in our North American business. The aftermarket business in the U.K., which is included in this number, in and the 15% continues to perform very, very well. The product environment are fluid with changing dynamics related to trade and funding. We're pleased to see this recent funding apportionments in the U.S. and will continue to track these trade developments. We'll take all actions possible to ensure that any appropriate response to tariffs will be made. While there may be some headwinds, we feel very well positioned in our response.

Sandra, please open the line up for questions and provide instructions to our callers.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) We will now take the first question from the line of Chris Murray from ATB Capital Markets.

Chris Murray^ The first question is maybe on the refinancing package and thoughts about moving forward. Can you walk through kind of the details of what the new facility does. I think there's some other things that are tied to the second lien process. Can you just maybe walk through kind of what your thoughts are about the timing and where we go from here as it looks like we maybe have a kind of a more stable earnings platform to base us off?

Brian Dewsnup^ Yes. Good question. Thanks, Chris. So, the -- so we've outline on Slide 17, some of the covenants related to the new credit agreement. We wanted to make sure that we we're able to put something in place that was able to increase our overall liquidity and reduce our interest expense. And so, we went ahead with the senior secured and as noted in some of what we've discussed that there's kind of two phases there. And as we look for additional opportunities, we can extend that agreement for another two years.

We're looking at a host of options for -- to put some more debt on the balance sheet to replace some of the higher interest expense debt that we have today. So that step two, if we want to call it that, would further reduce our interest expense through rate as well as increased liquidity within the company. So, as we work with the senior secured, there were certain parameters that we have now and those will improve as we move to the second step. And those parameters are kind of rate related as well as some terms and conditions.

Paul Soubry^ Chris, it's Paul. Just color on some additional color on what Brian said. Look, perfect world, we have done a complete refi of the entire balance sheet and debt tower at one step. The markets are volatile, the uncertainty around trade agenda and tariffs and so forth. The syndicate was extremely flexible and helpful to get us this first and major portion done we continue very active at looking at different ways to address the rest of the balance sheet. So, one of these state tuned type discussions.

Chris Murray^ Okay. And maybe I missed it, I'm sorry, it's just been a busy morning. In the last quarter's call, you talked about thinking about an exit rate on leverage of somewhere between two and 2.5x. Is that still kind of what you're thinking at this point now maintaining guidance that kind of feels like there's not a lot that's changed, but just any commentary on that would be helpful.

Brian Dewsnup^ Yes. So, you would have seen we were just under 4% in the most recent quarter, and that's still our projection by the end of the year. Of course, working capital can go up and down pretty significantly depending on kind of what's going on in the business, but those are -- that's our still projection. That's still our projection for the end of the year.

Chris Murray^ Okay. That's helpful. Then looking forward, the backlog, it certainly sounds like you've talked about -- so you're sold out for the most part. 2025 now you're starting to book pretty heavily in 2026. As we start thinking about where the economics go and production rates. Can you just talk a little bit about maybe what's left to set up the starting point for the end of '25 as we enter '26? How -- we appreciate there will be some puts and takes in maybe some of the supply issues, but it feels like those are getting more addressed. Do you feel like you've got the backlog to go to a call it, a more normalized run rate? And just any thoughts on any other actions you may have to take to get you there?

Paul Soubry^ Good question, Chris. Of course we have a portfolio. So, dollars per equivalent unit are notably different across the stream. And let's just talk about the various elements to give you some context. Our book continues to do extremely well. It continues to increase its run rate. It's bringing online its next version, if you will, of its medium-duty bus Its backlog through the dealers is very strong and healthy, well into 2026. So we're very comfortable with that.

Number two, the motor coach market, as you know we went through quite a trough there for a couple of years of not building any private motor coaches. That business has recovered. We've won some really strong public motor coach contracts. So, the order book looks strong through '25. And again, as you noted, we're now booking well into '26 and feeling pretty good. The motor coach market is one of the ones, the private one that could be susceptible to what happens to ultimately tariffs, not only for tariffs into Canada, but U.S. tariffs as it relates to our competitors who build in Europe, but it is strong. New Flyer, as you know is the vast majority of our backlog this year is effectively sold out. We are at this point for '26 and '27, well ahead of booking slots than we've ever been in

our history. So feeling really good. Of course, the margin profile is notably healthier than it was over the last couple of years.

As both Brian and I alluded to, and I think Stephen in the intro, the U.K. market is the one that's under pressure. There's a good solid customer base that is loyal to Alexander Dennis. We introduced some new zero-emission models that are now into service and getting miles on them and getting customer confidence and so forth. The problem with the U.K. market is there is no incentive to build in the U.K. from the government. Therefore, the imports from China or even a chassis that comes from Sweden that the body is put on in Egypt, that kind of thing allows for some very aggressive importers to grab market share into the U.K.

So that's the one market that has concern. And as I mentioned and as Brian mentioned, we're looking at that business. We're going after the cost base. We're optimizing what it takes to build buses, but we're also comfortable in the new product models. Of course, the last part of the business is aftermarket parts and it continues to do extremely strong on both sides of the border, both sides of the business, both kind of North America as well and internationally. The challenge with parts parks kind of this year is we had a very, very strong, let's call it, campaigns or mid-life programs last year that forested revenue beyond normal levels. For a certain portion of that business, it isn't as strong this year. The good news, however, is that the core aftermarket continues to be very, very healthy.

So, a long answer, Chris, but when you add up the components we're looking really good for backlog and build rates through '25. And at this point in time, we're in May and we've never seen this kind of booked up rate for the following year. So, we're feeling really good. There is turbulence, as we talked about, relative to tariffs and what that might do to people's order quantities and so forth but feeling very confident at this point.

Chris Murray^ Okay. So let me ask you a question we probably haven't talked about in probably five years now. It feels like you've rebased a lot of stuff lot of repairs and optimization of the factories, backlog feels okay. Can we talk a little bit about thoughts around capital allocation for next year? Because if I think about historically, your need for CapEx has been relatively modest, kind of 1% to 2% of revenue. And I don't see a lot of product development on the horizon. So maybe we'll just correct me if I'm wrong there. But historically, NFI has always been to be able to pay a dividend. Obviously, there's probably some thought about maybe buying back some stock and kind of stopping up to, call it, the post-Covid and the eco of Covid messes. How are you in the Board thinking about the go-forward scope of what NFI looks like?

Paul Soubry^ Well look, Chris, it's a really good question. Ironically, we had this discussion with our Board here in Winnipeg yesterday. We've been through the ringer. Covid was awful, as you know and then the whole supply chain dynamics. And now we've got the headwinds of tariffs and trade wars and those kind of things. I think Brian did a really good job with his team of executing a new senior secured and all the trimmings that go with it, combining the U.K. facility with the North American facility, reducing the interest rates, adding to some of the flexibility that we want better covenant

flexibility and so forth. Next task as we just talked about, is to think about how do we replace some of that high expensive debt that sits in our tower today. But make no mistake, we've got to survive this not survive.

It's maybe a dramatic word. We've got to get through this whole dynamic of tariff and trade uncertainty, which who knows whether that's a month or who knows whether it's a year until we really know what the new world looks like. head is down, no question on cash generation, debt pay down, improving all of the metrics from an operational perspective, customer satisfaction and any recovery from some of the challenges we had for example, with seats or tariffs or supply and so forth. The future game of, do we get back to M&A, do we get back to a dividend paying stock, do we buy down shares. That's obviously on the docket, but it is not in our current consciousness.

We are laser focused on delivering on the guidance that we've given, that getting the balance sheet to the ratios that we want to live in, getting through any turbulence associated with these trade dynamics. Then we'll talk about that. But we haven't spent any calories looking at buybacks or dividends or that kind of stuff. This is about delivering after 4 or 5 years of incredible turbine

Operator^ We will now take the next question from the line of Krista Friesen from CIBC.

Krista Friesen^ Maybe if I can just ask a few on the seating supplier. Can you give us maybe a little bit more color on what's occurred over the past months that maybe had their performance not meet what you had been expecting when you last spoke to us in March.

Paul Soubry^ Thanks, Krista. I cannot tell you how many calories we have spent trying to work with the supplier with their ownership, with their consultants and so forth. This is a business that was in the process of moving their facility. They lost control of their MRP system and had challenges with people and equipment and performance and delivery and then therefore, cash flow problems, which means they can't -- couldn't pay their suppliers, which means they had sourcing issues and so on and so forth. This company had hired a consultant well in the middle of earlier of 2024. They and their consultants were not pleased with the recovery. So they put in a new adviser.

We're very, very deep way beyond what any relationship between a subcontractor would be and ironically working very cooperatively with our main competitors, [Gilly] who have the same problem of delivery of parts that haven't been delivered. So they are deep in their restructuring of their business. They too have dynamics associated with their debt and their balance sheet. We've adjusted our schedule. We've adjusted some of the forward orders where we could in some cases to balance the supply between this company, the other established supplier and a new supplier that has come to North America.

So I wish it was an easy thing. As I mentioned in my comments, once a bus is designed everything else around that interior that bus based on those seats is then designed and

therefore sourced. So the ability to switch mid production or even before we start production is effectively impossible. So look, we're deep. We feel comfortable that they'll get through this thing. We're on calls. We have people in their facility every single day. It's just taking longer than we had expected. However it doesn't affect our -- (inaudible) clear it doesn't affect our guidance. We have effectively been able to adapt and adjust with other suppliers and other deliveries.

Krista Friesen^ Okay. Great. Maybe just on that point on the guidance. So I assume maybe the line entries for Q2 may be a bit lower than what you initially anticipated just because of this slower-than-expected ramp at the supplier? Would that be a correct assumption?

Paul Soubry^ No. I think most of the [line] entry adjustments we made, Krista, were in the first quarter. We are ramping up, which is also a dynamic as we deal with a six supplier, which goes back to having other suppliers of seats. In some cases, customers have said, fine, I'll take another supplier's seats. We've been able to adjust. In some cases, customers have said, I don't want a different seats because I want fleet commonality. So we don't totally control the ability or the sourcing of the mix of what goes on those buses. But I wouldn't suggest that our run rates will be reduced or muted in second and third quarter -- or fourth quarter as a result of seats. They're progressively less a percentage of our total seats sourced.

Krista Friesen^ Okay. Perfect. Then maybe just a bigger -- broader question on the tariff impact, so you have your USMCA compliant components, but then other components that are coming from other countries. Are you able to adjust your supply chain at all? Or are you looking at adjusting your supply chain to reduce the potential tariff impact?

Paul Soubry^ Yes. Well you cover the automotive, so you know exactly the details associated with that. So when it's a customer specified parts on a bus, it's harder because you need customer approval, but there's also integration and interrelationship with other parts. So we have definitely gone down our bill of materials and looked at where they come from.

As you can imagine, the direct tariffs to us are relatively little. I mean they're there, but they're not massive. It's the indirect. An engine that we buy from a supplier in the U.S. that is built in the U.S., a lot of those components come from other countries. Therefore, it's the secondary indirect tariffs, which increased the cost of our inputs, which we don't actually control. So in many cases, we're digging down two or three levels within the supply chain to understand the indirect impact. And look, there's, I don't know 8,000 to 10,000 parts on a bus. So it's not like it's a simple calculation and every customer has a different level of sophistication Cummins or Allison are well sophisticated being able to tell us and advise us of a tariff impact, where smaller privately owned businesses don't have that level of sophistication.

Our ability to pivot is more of a long-term issue than it is a short-term supply impact that we can adjust, which goes back to -- we've put all of our customers on notice. We've

communicated both verbally and in writing twice that they will be subject to tariffs. We have started to see steel for a couple of months now steel and aluminum tariffs where we actually know the direct impact, those secondary or indirect tariffs are now the ones that are starting to flow through, but we are very transparent and open with all of our customers that it's coming. The likelihood is that the invoices to our customers will include the original price of the bus and probably a secondary or potentially even a third invoice to address those tariffs.

Operator^ We will now take the next question from the line of Cameron Doerksen from National Bank Financial.

Cameron Doerksen^ I wanted to ask you about the, I guess the funding environment in the U.S., I mean it looks like the -- I guess the allocation for this year is pretty stable. But I did notice that the low no, I guess grant number that was announced earlier this week that was something a little under \$500 million was obviously quite a bit lower than what you've seen in the last number of years at \$1.5 billion. Just wondering what your read through is on that? I mean is that an indication that government is using to fund EVs. Is that just maybe a reflection of the fact that maybe some of the funds that were previously allocated haven't actually been spent. Just any thoughts on that low no funding.

Paul Soubry^ Well it's a really good question, Cam, and thanks for that. So of course the original discussion about [Dodge] and its impact both on the FTA as an organization, the people and the employment and the resources and so forth is a concern, obviously in processing this stuff. The second issue, obviously as you highlighted, is the actual funding buckets and appropriates with it.

Now the apportionment advisory that we saw earlier this week is effectively at exactly the same levels as we saw for 2024. The next step in the process is that the government then issues a NOFO, a notice of funding opportunity, which then opens the door for transit agencies to make applications for those low note emission programs.

So we're not -- we saw a delay in the announcement, but we haven't seen a reduction in the announcement, which then gives us confidence about both backlog execution or conversion from option to firm, but also the dynamic about putting more of [fees] on the street which could only increase our overall backlog.

Stephen, do you have any other color to add.

Stephen King^ Yes. The only thing I'd add, yes, what we saw for the apportionments for 2025 was \$1.1 billion, Cam. I know there's a few other programs about facilities and some others that are more in that kind of \$400 million to \$500 million range, but we did see loan kind of still held at that \$1.1 billion. The comment that I would make to what we've heard as Paul mentioned, maybe a bit more focused on the low rather than no and low no. So some CNG, hybrids, those elements of buses. Then hydrogen as well continues to be a focus area. So obviously we're one of the only providers of fuel cell hydrogen electric buses in North America.

So we feel really well positioned there if we continue to see strong demand for hydrogen buses.

Cameron Doerksen^ Okay. No. That's helpful. And just if I go back to kind of the prebid there, I mean the low no, I guess funding was \$100 million kind of range. So obviously a significant increase we've seen in that not several years. Has anything shifted, I guess in the total dollar allocation, obviously much higher in the last number of years, but just that -- I mean as sort of some of the regular bus purchases been supplanted by loan funding in the last five years. And I'm just wondering how kind of the dynamic shifts going forward if we get a new funding deal at some point in the next couple of years?

Paul Soubry^ Well we're going to see a new funding bill. The probability of the current bill being extended is probably unlikely with a complete change, not only in the administration, but in their view and outlook of 0 mission vehicles. But as Stephen said, our assessment and read of what we have released earlier this week is completely consistent with last year. But I don't think we can underestimate what Stephen mentioned. We may see some operators pivot back from the current rate of 0 emission adoption to more low emission back to clean diesel or CNG or hybrid or electric.

So like as we read the '25 proportionments, it's consistent with what has happened over the last couple of years. The other thing that's in there that we haven't yet been able to totally understand is. As you know under the [Biden] administration, there was money not only for the bus but also the charging infrastructure. So that may not happen going forward, the same amount of money to help customers or operators buy the charging infrastructure. too early to read into that. As you know we have an infrastructure solutions business. It's gone well. It's not massive, but it's a positive contributor to the business and we help with charging infrastructure, but also now helping customers with hydrogen fuel cell infrastructure.

Cameron Doerksen^ Okay. No. That's helpful. If I could just ask one quick follow-up question just on the coach demand. You indicated that was pretty strong. Have you implemented any guide pricing actions on coaches yet to kind of reflect, I guess increased costs related to tariffs. I'm just wondering if that has been the case, has that resulted in any, I guess change in buyer behavior with higher prices?

Paul Soubry^ So the only direct higher prices we have today are on steel and aluminum and those price increases as a result of those costs have basically passed on in prices. The bigger issue that I was mentioning to Chris to all these secondary tariffs or indirect tariffs on our inputs have not yet impacted the delivered vehicle. That's right around the corner, which then goes back to in a retail environment, the price of a coach was x and now it's x plus.

So then you go back and say well wait a bit, if our competitors go back is in the same position, they'll have to do that. The other competitors, as I mentioned, the vast majority of them are in Turkey or Macedonia or even Irizar in Spain, they will have the full tariff

impact on the full vehicle as it gets in the United States. So that gain has not yet started, but it's imminent.

Operator^ We will now take the next question from the line of Daryl Young from Stifel.

Daryl Young^ I wanted to talk about the U.K. business. You've added some language that makes it sound like maybe the environment has deteriorated there faster than I would have expected. Can you just speak to some of the competitive dynamics with the foreign players coming into that market? And what needs to happen for NFI to kind of return the manufacturing segment to profitability there?

Paul Soubry^ Yes. Great question, Daryl. So when we acquired the business in 2019, the market had just started to recover after a real low, but the competitive dynamics were really around domestic competitors. There was two other competitors and us, and we had a significant market share position. In the last 5 or 6 years, the Chinese have made a major impact on that business. There are no by U.K. or U.K. requirements around local capability, local finishing, local sourcing or anything. So two major Chinese suppliers have really stepped into that space and are directly importing buses built in China for operation in the U.K.

So that has driven quite a bit of price pressure. We have one competitor in Ireland -- Northern Ireland that went through administration just prior to that period, and it was able to significantly reduce their cost base and are very aggressive on their pricing. The third competitor, a U.K. company that is owned by [Acikalin] has kind of downplayed its focus on the U.K. and is really focusing more on the Indian market. So you have not only the recovery of the market at the pace that we expected, given Covid and supply chain, but you also have third-party or international competitors that are way more cost effective.

So what Paul Davis, the President of that business is doing is looking at its cost base, looking at its sourcing. For example, he has a sourcing office is now set up both in Turkey and one in China. He has built partner relationships in China. He has built partner relationships in the U.K. and then he has facilities in Scotland and in England.

So we're deep in the assessment of the entire overhead and physical cost base, but also the sourcing and costing to get the price of our vehicles to be. So overlay with that, we've just gone through over the last couple of years a significant R&D program to create a whole new platform for our smaller bus and buyer of 100 for our medium-sized vehicle at a buyer of 200 and buyer of 400. So it's a model and quality and performance dynamic. But quite frankly, we're going to go after the cost base to make sure that, that business is competitive, and we're just -- we're really deep into that process right now.

Operator^ There are no further questions at this time. I would now like to turn the conference back to Stephen King for closing remarks.

Stephen King^ Thanks, Sandra, and thanks, everyone, for joining. Just a reminder that today is also our AGM at 11:00 a.m. Eastern that is both virtual and in-person. So for those that are in Winnipeg, it will be at the Fairmont Hotel. And for those that wish to join virtually, you can do so online. Details are available on our website. Thanks very much. Have a great day.

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