

NFI Group Inc (Q3 Results)
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Corporate Speakers:

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

Participants:

- Chris Murray; ATB Capital Markets; Analyst
- Krista Friesen; CIBC; Analyst
- Daryl Young; Stifel; Analyst
- Unidentified Participant; Bank of America; Analyst
- Cameron Doerksen; National Bank Capital; Analyst
- Jonathan Goldman; Scotiabank; Analyst

PRESENTATION

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

I would now like to turn the conference over to Stephen King, Vice President, Strategy and Investor Relations. Please go ahead.

Stephen King^ Thank you, Michelle. Good morning, everyone. And welcome to our 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 the continued improvement in our overall margins and unit economics as we convert our strong backlog. We'll also provide an update on the non-recurring battery warranties that impacted the quarter and recap our outlook. This call is being recorded, and a replay will be made available shortly. We will be referring to a presentation that can be found in the Financials and Filings section of the NFI Group website. As we move through the slides via the webcast link, we will call out the slide number.

On Slide 2, we provide our cautionary or forward-looking statements and note that certain financial measures referenced today are not recognized earnings measures and do not have standardized meanings described 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 enterprise 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 a wide range of propulsion-agnostic buses and coaches on proven platforms, and we hold leading market share positions in transit and coach market. More detailed information is available on our website. Slide 5 provides some brief insight into NFI's product and geographic mix and other major milestones.

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

Paul Soubry^ Thank you, Stephen. Good morning, everyone. And thank you for joining us this morning. I'll dive right into the Q3 results on Slide 7, starting with demand. Despite the third quarter being seasonally slower, we secured 644 equivalent units in new orders, generating 108.5% LTM book-to-bill ratio and a strong 71.8% option conversion rate. The highlights -- this highlights the continued strength in market demand supported by government funding in both Canada and the United States. Our total backlog, which includes both the firm and option orders now totals 15,606 equivalent units worth USD 13.2 billion.

In Q3, we delivered a 52% year-over-year increase in adjusted EBITDA and a \$12.8 million improvement in free cash flow. Liquidity increased by \$240.2 million reaching \$386 million at the end of the quarter. Total leverage inclusive of all debt, improved to 4.28x an improvement of one full turn since the end of 2024. These improvements were largely driven by the continued conversion of our strong backlog into operating results, with increases in the average revenue and margin per delivered unit. While there were numerous positives, the quarter was negatively impacted by a warranty provision for an ongoing battery recall.

On Slide 8, we provide details of this provision. In September, we announced a recall affecting approximately 700 buses and coaches primarily to flyer buses. The recall relates to batteries provided by our U.S.-based supplier resulting that was initiated due to the potential of a CELL short circuit or cell phone primarily during charging or at full state of charge.

For context, we provided an overview of the components of a battery system on this slide, starting with the cell all the way through to the battery and closure. As safety is our top priority, immediately after issuing a recall we implemented operational guidelines and software updates to limit the state of charge and the speed of charging on the affected buses and motor coaches. This allows customers to continue operating their vehicles with the affected batteries still in use. We've now determined that ultimately, we need to replace the batteries on these buses. The campaign is expected to take 18 to 24 months in total, beginning in the first half or the early part of 2026, and we will use a different battery supplier to replace those batteries.

Our plan is for the replacement to be completed in the field, and we intend to leverage our service center network for this work. While we are still finalizing our approach, we do expect this work to -- not to disrupt our production in 2026. Reflecting the expected replacement along with future potential costs to support other legacy cell batteries in the field, we booked a \$229.9 million warranty provision in the third quarter. This reflects our best and conservative estimate of the total cost of the battery call and related support.

We are comfortable with the tenant to term sheet that we entered into with XALT and expect to finalize a definitive agreement for costs associated with the recall as we move into the -- through the fourth quarter. XALT recently announced its decision to wind down their U.S. battery operations. This announcement does not change our expectation that we will achieve a satisfactory agreement on the recall cost that meets our needs and those of our customers.

We do also not expect this wind down to have any impact on New Flyer's production. We had previously moved most of our electric bus battery supply to an ultimate U.S.-based supplier. We will use those different batteries on the buses going forward. We are currently -- we currently use the Xalt battery on our fuel cell electric buses, and we expect all of the batteries needed for our 2026 production will be provided by XALT before they wind down operations. The batteries on the fuel cell buses are different than the batteries on the electric buses. Long term, we'll be moving our fuel cell bus battery supply to an alternative provider.

Recognition of the warranty provision for the battery recall impacted numerous financial metrics in the quarter. And given the nonrecurring nature of this event and the ongoing negotiations on an agreement for related cost, we have normalized adjusted EBITDA and adjusted net earnings calculations. This morning, we will call it a few other areas where the recall had a meaningful impact.

On Slide 9, we outline some of these impacts. Without the battery recall manufacturing segment gross margin would have been 10.2% with a gross profit per equivalent unit of \$66,300, a 58% improvement from the third quarter in 2024. Manufacturing net earnings would have been \$26.7 million. Reported working capital of \$248 million was positively impacted by the provision and would have been \$464 million without it. The graph on the right bridges net loss to adjusted net earnings with the battery call and the associated tax impact being the largest bridging items. This is our third straight quarter of positive adjusted net earnings.

I'll now turn the call over to Brian Dewsnap, our Chief Financial Officer, to provide a supply chain update and discuss our financial results in more detail. Over to you, Brian.

Brian Dewsnap^ Thanks, Paul. Picking up on Slide 10, we provide an update on our supplier risk profile. We currently have just three companies that we consider high risk/high impact, down from 50 in the peak of 2022. This improvement reflects the ongoing work of our sourcing, procurement and supplier development teams are actively working directly with suppliers to improve delivery performance. While there's been

recent disruption in automotive supply chains, we've largely have not seen any significant impact. It's a situation we'll continue to monitor. We don't have much of an overlap with automotive, but there could be cascading effects that may impact our supply base.

Slide 11 highlights our recent strategic investment to strengthen our supply chain for a joint venture assumption of American Seating assets with GiG. We expect this partnership will drive financial stability and operational performance at American Seating. This will benefit improved performance for NFI, also the broader industry. Financial terms were not disclosed, but the transaction is not considered material.

While we are now investors in American Seating, it's critical that we maintain a diversified supply base receipts and are continuing to work with other seat suppliers. The number of new flyer buses built but yet -- built but they're still missing seats remain relatively flat since our last update. We did see an increase in August and September, followed by a reduction in October to 50 equivalent units. This impacted Q3 deliveries, and we remain focused on bringing this number down prior to the end of the year. We have lower production with American Seating in the fourth quarter, which should free up capacity for them to prioritize deliveries for seats on these essentially complete buses.

On Slide 12, we recap quarterly deliveries. Transit deliveries were up 14% year-over-year, driven primarily by the North American business. This increase was achieved despite some zero-emission bus customer acceptance delays and seat related disruption. Coach deliveries were down in the quarter due to lower private sector deliveries, although we anticipate a strong recovery in the fourth quarter, consistent with the seasonal nature of the business. Reflecting the strength of our backlog, we achieved 19% year-over-year increase in the average selling price for both heavy-duty transit buses and motor coaches. We also delivered a record 217 low-floor cutaway buses in the quarter. This is up 36% year-over-year, and the average selling price was up by 21%, reflecting continued strong demand.

Turning to Slide 13. Aftermarket gross margin was essentially flat quarter-over-quarter and down year-over-year. This reflects sales mix, reduced program revenue from large midlife projects in North America and the impact of tariffs. In the Manufacturing segment, gross margin, excluding the impact of the battery recall was 10.2% consistent with the second quarter. This time -- this reflects timing-related impacts in the third quarter and sales mix. The year-over-year improvement in gross margins highlights our improving backlog profile flowing through quarterly results.

Slide 14 walks through year-over-year changes in adjusted EBITDA within our reporting segments. Manufacturing EBITDA was up by \$36.1 million driven by higher deliveries, favorable sales mix and improved pricing. Corporate adjusted EBITDA declined by \$2.2 million, primarily due to negative impacts of foreign exchange including a lower U.S. dollar.

Slide 15 shows LTM adjusted EBITDA performance for both manufacturing and aftermarket segments from 2022 to 2025. Our Manufacturing segment continued its

strong upward trajectory, achieving \$174 million on an LTM basis, which is an increase of \$114 million year-over-year.

Slide 16. Quarterly free cash flow was positive with a strong increase driven by the higher adjusted EBITDA and lower interest expenses. There was a significant positive impact from working capital in the quarter, but this was largely due to the battery recall increasing provision balances. Excluding those impacts, free cash flow, combined with changes in working capital would have been \$35 million. This represents a \$68.9 million improvement from the prior third quarter of 2024, reflecting lower inventory balances and our milestone payment structures.

On Slide 17, we look at our total leverage, liquidity and return on invested capital. We continue to execute our deleveraging strategy and reduced total leverage to 4.28 times on an LTM basis. Note that this calculation includes first lien, second lien convertible debentures and lease obligations. For banking purposes, which exclude convertible debentures and leases, total leverage was 3.37 times. Liquidity was up approximately \$241 million year-over-year and up by \$59.3 million from the second quarter. This reflects our positive cash generation and debt repayment. ROIC has continued to trend positively supported by improved adjusted EBITDA and lower total invested cost base.

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

Paul Soubry^ Thank you, Brian. As we look into the fourth quarter and our plans for 2026, we expect that NFI will continue to grow revenue, gross profit, adjusted EBITDA, free cash flow, return on invested capital and net earnings. I'll walk through the drivers behind this continued momentum and comment on the key risk factors in our operating environment.

So, I'm now on Slide 19. You can see the makeup of our backlog over 15,606 equivalent units, 37% of which are firm and 63% are options. Our firm orders provide significant visibility for the fourth quarter of 2025 and have also helped us fill the majority of our 2026 public market production slots. The options offer runway and visibility for our production schedules over the long term. The black line represents the total dollar value of the backlog, which is now \$13.2 billion, having grown \$8.3 billion just over the last three years. In the third quarter, we saw higher new orders for internal combustion buses, which is consistent with our experience in the first half of 2025. As a result, the EEV percentage of our total backlog remained relatively flat.

Our improving total backlog and firm auction profile is displayed on Slide 20. The chart demonstrates the improvement in average sales price, or ASP, per equivalent unit across our total backlog including both firm and auction orders. Average selling prices have increased for both heavy-duty transit buses in the dark blue and motor coaches in the light blue.

Year-over-year, ASP for heavy-duty buses was up 1.5% and up a walking 64% since Q3 of 2021. AsP for motor coaches was up 20% and 52% over that same time period. Now

these pricing improvements are expected to continue flowing through our income statement. We saw this in the first three quarters of 2025, and we expect even more improvement going forward. We anticipate further gains in the fourth quarter, supporting our outlook for the highest quarterly adjusted EBITDA quarter in the company's history.

The North American bidding environment remains strong as shown in our bid universe on Slide 21. We ended the quarter with active bids of 7, 503 equivalent units. This includes 6,217 EUs and bids submitted, which is up 50% from the second quarter of 2025 alone. This reflects recent submissions on a large multiyear bid related to upcoming major sporting events that are being posted in -- over the last couple of years in the United States.

The black line on the chart shows new awards. We saw some decrease from the previous quarter, primarily due to timing delays on new orders. The chart illustrates the typical correlation between bids submitted in light blue and contract awards in black with a lag of a few quarters from submission to award. Over our 5-year expected bid universe, which is compiled from customer fleet replacement plans, remains very strong at nearly 23,000 equivalent units. This sustained demand is driven by increasing fleet age with nearly half of the North American public transit fleet now over 12 years of age and continued strong government funding.

On Slide 22, we show our book-to-bill and option conversion ratios. NFI's auction conversion ratio has improved significantly, reaching 71.8% on an LTM basis. This improvement reflects increased order activity, a higher number of exercise options and the improved competitive landscape and our competitiveness. The slight decline in our book-to-bill from the second quarter reflects lower new orders and higher deliveries in Q3.

On Slide 23, it reflects our guidance ranges for key metrics for 2025. Based on our year-to-date performance and our expectations for the range of year, we've tightened up a few certain ranges. We now expect revenues to be between \$3.5 billion and \$3.7 billion and driving adjusted EBITDA ranging from \$320 million to \$340 million.

In the fourth quarter, we expect higher deliveries, particularly in private markets, and improved sales mix drive and should deliver our highest quarterly adjusted EBITDA ever. This reflects continued improvement in our per unit economics and a strong contribution from the aftermarket business. Cash CapEx are projected to be lower than initial expectations, even as we have invested into several new facilities including our all-Canadian New Fire Build project in Winnipeg and the Alexander dentist plant set up in Las Vegas, Nevada.

For clarity, our guidance includes year-to-date impact of tariffs and some of the smaller potential tariff impact on fourth quarter results. It does not reflect any material changes that tariff environment could have on demand, pricing or costs going forward. This risk is somewhat offset by the fact that the majority of our remaining 2025 vehicle sales are already produced or will be finalized in November.

On Slide 24, we provide our latest views on the macro tariff environment. We observed some stability in the tariff environment during the third quarter, and we have relatively consistent direct tariffs on goods that we import and suppliers that have started to provide additional details on supplier story that have started to provide additional details on tariff surcharges that have been included in their pricing. Those are indirect tariffs, ones we pay to suppliers for parts and components used and installed in our vehicles.

On November 1, a new U.S. Section 232 tariff of 10% was applied to all buses and coaches imported into United States from any jurisdiction. This is expected to lead to increased pricing and tariff surcharges to end users as there's no domestic U.S. production of motor coaches. Prior to November 1, we have moved the majority of our finished good inventory from Canada into the United States physically. We continue to view tariffs as a pass-through to cost to customers through contractual obligations and through general price increases and negotiations. This does require negotiation with customers, and we may not be able to cover all of our costs.

We have generally had success in being able to find solutions with customers so far. Longer term, we will continue to assess our geographic production schedules to try and minimize tariff exposure. We've made significant investments in the United States operations increasing our staffing in the U.S. by 7% since the beginning of 2025. And during the last 10 months, we've opened the Las Vegas Nevada production facility for Alexander double desk buses, opened a new service center for MCI in California, and we acquired the Michigan-based seat supplier.

We also recently put our first bus into our all-Canadian build production line that has been commissioned in Winnipeg, Manitoba. Tariff-related costs have been accrued in work in process inventory as we complete customer negotiations. Within the aftermarket segment, we have experienced some margin pressure primarily due to the timing between tariff incurrence and the pricing updates. Our ability to address pricing models quickly has helped mitigate longer-term impacts.

I'm now on Slide 25. So, a few closing comments. The first three quarters of 2025 laid a very strong foundation for continued momentum. We increased deliveries, we converted backlog into results, and we've had solid cash generation supporting debt repayment and the deleveraging plan that we set out. Our total backlog of \$13.2 billion, combined with auction conversion rates and strong book-to-bill ratios reinforces our confidence in our near term and our longer-term outlook.

In the U.K., we were pleased to see active engagement and very strong support from the Scottish government and several active procurements have supported growth that we project now for 2026 deliveries by Alexander dentists. NFI's aftermarket business is a foundational business unit with steady and recurring revenue streams, a solid margin profile and significant free cash flow generation.

Calculating and enforcing tariffs are becoming more established in our operations and as part of our industry, we continue to actively track trade developments and will take all actions possible to ensure an appropriate response where required. While there will be some headwinds and volatility, especially with private motor coach markets, our domestic production, our nimble aftermarket pricing, our extremely strong backlog and contractual provisions leave us feeling well positioned to respond as needed to the dynamic environment.

So, despite headwinds related to seat supply, tariffs and now battery replacement programs, we have not changed our overall view that NFI is a very strong trajectory of growth that should see significant investments in operating and financial metrics. We are confident in the strength of our markets, our business, our product offering and our people to deliver outperformance as we head into 2026.

With that, we'll now open the line for questions. Michelle, please provide instructions to our callers. Thank you.

QUESTIONS AND ANSWERS

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

Chris Murray^ Can you go back to just talk about the battery reserve and maybe some extra color on that. So, I guess the first piece of that, can you maybe walk us through your confidence level on what the actual cash cost might look like to NFI and the proportions that might be covered by the suppliers. And how to think about that evolution over the next couple of years?

Then if you could also talk about supply chain around batteries because I know at one point, I guess XALT had been a bit of an issue about even getting batteries, which has led you to look for a second supplier now that XALT is exiting the market. Do we still have a supply chain issue in batteries? And how do we think about that on a go-forward basis?

Paul Soubry^ Great questions. Thanks, Chris. So let me start with the second one first. We've been dealing with Xalt for a decade, and XALT had gone from a private ownership in the United States to being acquired by a very, very large multi-international business who invested dearly in there.

Yes. There's been volatility of supply dynamics over time and as the percentage of zero-emission buses increased in our backlog, we did it out of not a concern of supply, but of surety and competitive dynamics. So, we actively went out and set up a second battery supplier, which took us about two years to validate eCommission onto our buses and we've now been delivering buses with those alternate batteries for about 2.5 years now.

So, we go to a situation now where, yes, we had the recall we had to deal with, but XALT is leaving the U.S. market and leaving the battery business. We have signed a term sheet,

of course it's nonbinding, but it recognizes both how we would do the recall the economics associated with it. As well as how product support, technical support, field support, warranty support would work going forward. So that is the process we're in the middle. We signed the term sheet about, I don't know three weeks ago, and we are actively negotiating with XALT and its parent on the economics associated with that.

We do not have a definitive agreement, and therefore, we can't provide the details associated with it. We are confident that the batteries we're going to put on in place of the XALT batteries are proven and the supplier has assured that they can handle not only our ongoing manufacturing requirements for the manufacturing demand but also the surge demand over the next 1.5 years or two years whatever it takes to finish the actual recall.

So, I wish I could give you more color on actual dollar cash, the economics, the timing and so forth, don't have that completed, therefore, it's not prudent to be able to provide any details or insight into that at this point. Brian, do you want to add some -- let Brian give you a little bit more color on some of the economics associated.

Brian Dewsnup^ Yes. Just as we mentioned in the call we would expect the campaign to be executed over the next 18 to 24 months. So just from a cash flow perspective, we'll start that campaign in the first half of 2026. So, we would expect there to be an effect -- round figures half of that done in 2026 and half in 2027. Then the warranty piece of what we put in there, we would expect to be dispersed over the next kind of 1 to 4 years. So, while it's a big number, that will be done over kind of 2 to 4 years in terms of the cash effect of that.

Chris Murray^ Okay. That's helpful. Then I guess going back and thinking about the outlook. So, a big quarter coming up. I guess even going to the bottom of the range, still -- our guidance still implies there's a lot of buses that have to move out the door. Can you talk a little bit about how you're feeling about that? But also, as you think more broadly, how you're feeling about the manufacturing platform where you're at as we go into 2026. And as we move beyond, I guess some of the, call it, the problems with Covid and the acquisitive Covid, the supply chain, '26 feels like it's setting up to be a -- maybe the first normal year in almost a decade. But how do we think about this as a year kind of a normal operations with good backlogs, supply chain kind of for the most part, fixed and working. What do you think the business can actually do at this point?

Paul Soubry^ It's a great question, Chris. So, let's start with the fourth quarter. So, the guidance that we've maintained on the low end, and we've just dropped the top end a little bit to reflect -- we're almost -- we're 10 months into this business for this year. The guidance suggests the fourth quarter of 2025 would deliver an adjusted EBITDA in the neighborhood of \$105 million to \$125 million. While we have always expected fourth quarter to be the biggest period, it has been further supported by some deliveries that were originally planned for Q3 '25 that moved into Q4. The exit rate does provide us with increased confidence in our ability to deliver growth in 2026.

We've not yet provided guidance for '26, but as we've discussed previously as we look into '26, we expect improvement in overall deliveries for a couple of reasons. First, we increased the Canadian build. So, we've got four to potentially five units a week of additional deliveries. We freed up capacity that we would have taken for in Cripsin, Minnesota to build a shell in Canada, send down to the U.S. for completion now adds more capacity in the U.S. for builds.

We should be finally pass the seat supply disruption, two issues, we're now in control of our own destiny of American Seating after a very long and protracted and painful process. And number two, as you know we've diversified the supply to effectively to other suppliers. Our reliance on American Seating, for example, in the third quarter is somewhere in the range of 22% or 24% of the deliveries, not 60% like it was this time last year. The U.K. market has gone through quite a bit of challenges this year. Paul Davis has done an amazing job of idling its facilities where that made sense, working schemes, but more importantly, has been able to already solicit or solidified a reasonably serious increase in volume in the U.K. in the ABL markets for 2026.

Then, of course the other thing that is often under the radar is that our ARBOC business continues to perform extremely well. They are, by far, the market leader in low-floor cutaways in North America. They are also now deep into the reintroduction of a medium-class vehicle that we already have sales for book for 2026. Add to that, the underlying contribution that continues from the aftermarket business. Now if you look at some of the graphs, you may see a bit of a tail off on margin. You may see the EBITDA slightly less than last year. However, that part of that business is highly volatile associated with programs.

So, where customers will do mid-life upgrades to their fleet, something we can't really control. That core business of aftermarket continues to grow. And John Pravin, who started -- well over a year ago now to run that business when Brian moved to CFO, has done a really good job at focusing on growth opportunities in that space. All that stuff adds up to what we believe will be a record quarter for us in 2020 -- sorry, in fourth quarter of '25 and a very strong performance opportunity for 2026.

Sorry to the long answer, but I thought all those things are appropriate.

Operator^ And the next question will come from Krista Friesen with CIBC.

Krista Friesen^ I just wanted to go back to your slide on the high and moderate risk suppliers and just comparing it to what you'd put out for Q2 and the numbers for July 2025. It looks like there's been an uptick in the moderate risk from 9% to 12% and high risk from 1% to 3%. I was just wondering if you can give a little bit more color on those suppliers and what's changed there?

Brian Dewsnup^ Yes. Good question. So obviously there's a subjectivity here in terms of how we raise things. So, we've seen kind of a nominal movement there in our medium risk. I don't think you should really read anything into that beyond the fact that we're

actively managing this, and we're sensitive to any types of disruption that we're seeing there. So, I wouldn't say that things have materially changed from earlier this summer.

Krista Friesen^ Okay. Great. Then I also just wanted to confirm on the on the guidance front. Did you say that at this point in time the guidance for the remainder of the year includes all tariffs that are in effect.

Brian Dewsnup^ Yes. That's -- everything we know as of right now yes. The November - the early November tariffs, we don't think they have a significant effect in 2025. We think that will be more of a 2026 issue that we'll need to deal with.

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

Daryl Young^ With regards to the replacement of the batteries that needs to be done, which personnel, I guess are going to be -- are you going to be doing that? Is it New Flyer people that you're going to have to pull from your current facilities? And is that going to result in a bunch of overtime and added costs and disruption to your existing supply chains or really no impact there?

Paul Soubry^ Really good question, and we spend a lot of time. So, when we started the thinking of a recall we had kind of three options. One was pull the buses back to the factory, not really practically, you also have border dynamics and so forth. Number two is to set up a third-party or engaged third parties maybe on the East Coast or the West Coast. Then the third option, which is the one we've selected, is to run those boxes on a battery exchange type program in a service center.

So, we have service centers in New Jersey, in Montreal, Chicago, Dallas, San Francisco, Los Angeles. So, what we will do is effectively because they're battery electric buses, we will have a truck, if you will, driving a battery electric bus into the service center. We will dedicate a bay or two. We've done a heat map of all the location of all the battery buses that we'll need to recall. There's a high propensity in the population in Southern California and in Northern California. We will dedicate two or three bays or whatever is appropriate at each of those service centers and run them through an exchange program. Each bus in terms of taking off the batteries, putting on new batteries. There's some tabling and some small equipment that needs to be changed and then there's software upgrades and then testing. It's not massive.

Each -- we think we'll be able to do a number of buses a week at each service center. None of the people from the factory will be involved, so there will be no impact on the manufacturing operations. We may need to add a couple of extra people in each of those service centers depending on each of their individual needs. The service center will forgo a little bit of third-party work that they do today to be able to assign the space and the people to do this program.

So, as Brian alluded to, at this point, the schedule -- the primary scheduling said somewhere between 18 and 24 months to be able to complete the entire campaign. The

very first replacement will be done in Winnipeg at our new product development center, where we'll have all the engineers and new product development people, the supply people validating the bills materials and so forth. That will start in probably January.

Then in earnest, we'll start the recall most likely right after the first quarter. So, we've got to make sure the supply is right. The people are skilled and trained and then they work with the customers to allow them to get the vehicles to us. Just some color as well Darryl, as you probably heard in the notes, we have disposed -- or we've disposed. We have distributed software on all of those battery electric buses. We're well into that process right now to be able to allow the operators to use the buses. Yes. There's a slight degradation in the pace of charge, and there's a slight reduction in the total battery capacity. But the interest of safety and caution, we've deployed that and are well into that process now.

Daryl Young^ Got it. Okay. Then when you flip to the sole battery supplier to 2026 for your new orders, and I know you mentioned you've been working with them since 2023, I think. Is the batteries that are going to be supplying? Is that a new technology? Or is that the same old proven one that they've been building and you're going to add it to the buses and there's no design spec changes or anything like that, that needs to come through? And do they have the capacity to kind of hit the ground running in terms of volume?

Paul Soubry^ So, the cells themselves are at LG cell. They are packaged by a company called American Battery Systems that's located in Michigan. The cells -- these LG cells are cylindrical cells as opposed to the ones that are currently on there, which are pouch cells. Those batteries are in use in many applications including vehicles, trucks, buses around the world and by some of our competitors today. So, there is not a new chemistry or a new application or type of search, or anything associated with those batteries.

Now we have validated with that supplier. They can handle both our normal production requirements, which we have for 2026, and the slots sold as well as a surge capacity to deliver the pace at which we need these recall batteries. As you can imagine, we're going to be taking off almost 700 buses worth of batteries. So, we're also actively working on the recycling of those batteries, the appropriate tear down, the disassembly and working with providers to do the right thing from both an environmental but also from a cost of a safety perspective.

So, we're pretty comfortable with this, which then leads into our engineering teams have already started looking for yet another battery type that would be an alternate to what we have. So, what we want to be able to have is always two sources of batteries. Should anything like this or ever come up again we will have multiple sources.

Stephen King^ Yes. So largely -- sorry, Darryl, yes, as Paul mentioned, largely view the replacement of batteries is plug and play to make it simple of the new supplier versus the XALT battery. I just wanted to reiterate as we've discussed on the call in numerous times, we continue to discuss costs associated with the recall with XALT and we have that term sheet in place, and we're looking to get that definitive agreement in the fourth quarter. I

just really want to reiterate that as people are thinking about costs and the costs associated with this campaign.

Operator^ And the next question comes from A Banda with Bank of America.

Unidentified Participant^ So from my understanding and going back to the better recall question, that \$230 million that you took essentially is your -- what you currently expect, your portion of the battery replacement plus the warranty cost. And correct me if that's wrong. I guess maybe --

Paul Soubry^ Let me just clarify that, is the total cost of the recall plus with XALT leaving the business, it is our estimate of future warranty exposure associated with any installed buses that are not associated with the recall. So, what is being negotiated and what is reflected in our term sheet is the portion or the recovery from XALT as a supplier.

Unidentified Participant^ Okay. So that \$230 million is like a gross cost, let's call it...

Paul Soubry^ Correct.

Unidentified Participant^ And if you reach some sort of agreement with XALT, it could decrease from here?

Paul Soubry^ Absolutely. We would expect it to dramatically decrease.

Unidentified Participant^ Now of that \$230 million, I guess can you maybe -- like what's the cadence? I mean I mean I could do a divide it by eight quarters and you got -- or six quarters, you can do, call it, \$30 million or \$40 million per quarter. But I guess is it going to be more front-end loaded, I guess how does the cash layout of that, let's say on a gross amount before any sort of recovery look like into '26 and beyond.

Brian Dewsnup^ So, the gross number comprises two pieces, as Paul mentioned, it's the campaign money to go out and literally take the batteries off and put the new batteries on vehicles. That's the bulk of that accrual. We would expect that to commence in the first half of 2026, and it will take 18 to 24 months. So round figures, that would be half of the cash flow would be in 2026 and the other half in 2027. Then the balance from a warranty standpoint would be spread would say fairly evenly over the next four years. So, the cash impact would have that kind of a profile. Obviously as we talk about any sort of settlement that would be highly dependent upon the terms and conditions of that settlement.

Paul Soubry^ And to all our listeners. We're not trying to be purposed to be acute or evasive. We have a term sheet. It is still not binding. We're in deep negotiations with XALT. And so, it's imprudent to give any indication. We're comfortable at what the term sheet reflects in terms of the economics. The minute we get that done, we will issue a press release to clarify to the market our portion, if any, of that recall.

Unidentified Participant^ And have you provided a split between -- the warranty portion and the replacement portion?

Brian Dewsnup^ We haven't provided that. But like I said, the majority of the accrual would be the battery replacement.

Unidentified Participant^ Okay. Then -- maybe going back to -- this is all -- that was all super helpful color. Then just going to the tariff question. Obviously quite a few ones out there, section, the 10% reported pluses. I guess first as you kind of think about 2026, what would be the unmitigated tariff impact? I don't know if you want to give a quarterly number or annualized number before any sort of price negotiation with customers.

Brian Dewsnup^ Yes. So, we're -- it's a little bit too early to comment on that. So, I think we can give a little bit more color on that as we move forward. We're still digesting all the implications of the November one changes because it brought some new stuff, and it also did away with some other stuff. So, we're still kind of working through that math. And they will be more prepared to comment on kind of the high-level nature of that as we get closer to the end of the year and certainly as we talk about the full year results.

Paul Soubry^ Just to comment on '25 the vast, vast majority of units that we'll sell in '25 are already physically in the United States. So, the real tariff dynamic that Brian just alluded to is the country tariffs, the tariffs on our suppliers as they input parts in what we bring into Canada as opposed to what goes straight to a U.S. supplier. And now of course the Section 230 to 10% on buses and coaches. Your question is a good one. In terms of the unmitigated, we also have an awful lot of mitigation opportunities, which might mean migration of more of our work or our supply chain physically to the United States.

Unidentified Participant^ Okay. Then my last question is, like I've read a lot of articles, maybe there's just newspapers or local kind of warning about local transit budget service cuts. But I guess I kind of want to know what you're hearing, I guess when you speak to your transit customers, what are they saying regarding their budgets, their busy needs? Any sort of comments on timing or changing of timing of bus deliveries. Just -- that would be some helpful color.

Paul Soubry^ Well, it's a good one. Of course, it's not a simple answer because we have multiple business units. So, let's just kind of dissect each of them very quickly for color. So, Alexander dentists, of course, sells a small amount of buses in North America. The schedule is sold out in our mind for the vast majority of '26. There's a few slots we still have to fill, but there hasn't been any changes, reductions cancellations, anything associated with that. It will see an increase in volume in the U.K. Internationally. So, we're pretty excited about after a pretty rough year for Alexander about them next year. The ARBOC business, just like when we entered into 2025, has almost all of their slots sold out for next year on the cutaways in a very healthy portion as we reintroduce the medium class business -- medium class buses into the United States.

New Flyer, the vast majority of the schedule is sold for 2026. If you go back to our -- you look at our backlog, both -- well the firm portion as well as some expected options to conversion. We've seen some customers change an order from a zero emission to a hybrid or a diesel or natural gas. We've seen some people push out. We have not seen the auction conversion drop as we showed you in the charts. We also have not seen a drop off in any of the RFPs hitting the street or the bid universe. And so, in our deck on slide, I think it was Slide 21, we showed both the very healthy portion of active submitted and received bids, but also the continued expected buy over the next five years.

So, we haven't seen that drop off. The other area of our business is MCI. Of course, MCI is roughly 65% or 70% private customers and 35% public customers. There are only, I don't know seven, nine real operators in the public domain, and that's blotchy in terms of they buy in certain years, they don't buy another year, they'll buy high volumes or a procured loss. There is some risk on the MCI side associated with filling all the 2026 slots, although it's not a big, big portion of our overall business. The private market has recovered fairly well in terms of the private operators that the overall market demand continues to be, let's call it, in recovery mode. These new Section 232 tariffs of 10% applied to us, just like they apply to all of our competitors, whether it's another competitor that's in Canada or international competitors.

So, an extra 10% tariff, we all try and tack on to some of those private offers, it could have an impact on that demand. But when you roll all that stuff up and look at our business going into 2026 from a market perspective, from the portion of our business that is sold or secured slots, we're still in our views, in very much an operational and execution-focused mode as opposed to about working where we're going to have business from.

Stephen King^ Yes. The only thing I'll add there, obviously you've been encouraged by comments from the administration around getting American Building again and investments in Surface Transportation Act. We saw the 2025 allocation for the infrastructure investment job. That was the same there is another year of that funding act that goes until September 2026. And also, the FDA is still active and still actively funding projects that have been approved even during this kind of current shutdown. So, our customers are still getting funding for their capital projects that have been previously approved. So, all that to say is a ballpoint still feel very confident in the government funding environment in the United States

Unidentified Participant^ So it sounds like the majority of your losses for public use, or the build slots are essentially filled for next year. So, no current change.

Paul Soubry^ Absolutely.

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

Cameron Doerksen^ Just I want to come back, I guess to the bus recall and the battery issue. It sounds like you've got, I guess productive talks and some sort of agreement with XALT. I guess maybe you can sort of give us your assessment of the risk around this potentially leading to some sort of lengthy legal dispute. I guess how do you protect yourself over the long term if the owner of XALT, given that they're shutting the business down, decides to put that business in bankruptcy and somehow get out of the liability that they have. I'm just wondering how you sort of assess those risks and how you can protect yourself?

Paul Soubry^ Well Cameron Ken, look, there's always the risk of something turning sideways.

But I have been personally and actively involved, along with David White, EVP of Supply directly with XALT and with the owners of XALT. The owner of XALT is a very, very large global international privately held business that has a very strong reputation for responsible customer support, responsible products and so on and so forth. We signed a term sheet, which would be a normal process. I would suggest it was a very constructive and healthy negotiation. We independently hire technical experts to try and assess the cause, the root causes, the ability to operate them safely during the process of both stuff.

I would characterize the negotiation as constructive as healthy, the outlook being very positive. The economics that are on our term sheet are acceptable to us. We just got to convert that into an agreement. We believe very definitively in our technical position and assessment of the cells and the cause of the risk associated with the short circuits. We have done our work from a legal perspective and have worked with outside external counsel to defend and prepare our position if and when we ever had to get there, which I don't believe we will do. So -- and we've had unbelievably strong support from the Board, a, to do the right thing for the customer; and b, to prepare all avenues associated with both our negotiation and litigation if it got to that.

Cameron Doerksen^ Okay. That's helpful. Just second question, I guess on the investment in American Seating, the JV with Gillig, anything you can sort of disclose as to how much capital you might have to put into that business. I think it was sort of indicated that maybe there's some investment required for them? And I guess what's the intention kind of long term. Is this a, I guess a supply that you want to have long term in-house? Or is this something that at some point in the future, you don't think you need to necessarily have?

Paul Soubry^ So look -- and we've talked to you and all the other analysts about how hard is this? Why don't you just change suppliers? Or why don't you just put pressure on - - this has been a year-long or deal or a nightmare for us and for Gilly, for that matter and some of the other customers of American Seating. We finally came to a scenario. And given the status of their debt and the debt holders decision and desire to get out where we could acquire the debt and then proceed with that. So, job one is stability. We have changed the leadership team. We have put a turnaround firm in place to fix the business.

We are actively recruiting for long-term employees to run the place and executives to operate the business.

We have a joint board of two from Gillig and two from us. And so, it's all about stabilization of operations. The investment is not material in our overall business. The pain we suffered over the last year has been ridiculous relative to just one supplier. The amount of seats that are behind is still a notable number. It got better, notably better as we got through the summer of this year and then started to return, which is why we jumped at the opportunity to take control. Seating is not a strategic element of a supply chain that we want for the long term. We'll deal with that in due course once this place is stable. And quite frankly, if we can have three suppliers in the U.S. competing and buying for that business, the quality of what we all get the pricing effectiveness and so forth is critical.

Typically, our strategy for insourcing and Cam, you've been to our plants, is where we own or control the drawings associated critical parts on the bus, the frame, the structure, certain electro components, fiberglass, those kind of things, we've in-sourced that. And about 10 -- more than that, about 15% of our cost of sales we control. This is, I would say a targeted strategic investment to ensure surety of supply for the next couple of years. Then we'll decide whether this is a long term. It's awkward. We're doing it in a joint venture with a competitor. I would tell you they are standup people. We work cooperatively. We've put all the controls in place from an antitrust perspective. I'm comfortable we'll get this place back on track and then we'll deal with this future as we move through '26.

Stephen King^ And Cameron, obviously as Paul mentioned, just they're a little different than our usual acquisitions or it's a joint venture. So, you'll see it on our Q4 results as an investment in the joint venture on the balance sheet. So, we'll have a bit more detail with Q4 results in March on the accounting treatment.

Operator^ And the next question comes from Jonathan Goldman with Scotiabank.

Jonathan Goldman^ If we think about just a battery replacement in isolation for Aleman, who doesn't know much about the industry. If you strip out the cost of the actual battery itself and all the materials, what would be the approximate cost per battery for labor, freight and overhead to change on the battery?

Paul Soubry^ Good question, Jonathan. It's nominal. I'm going to give you an estimate that context, right? We're going to ship a box from one location on a flatbed to our facility, a brand or two. We're going to ship it back a brand or two. We're going to put hours of labor into each to take the old battery packs off with the new ones on. So that part of it is not the major part of it. The vast majority is the actual battery pack replacement itself.

Jonathan Goldman^ Okay. That's really helpful color. I appreciate that. In the quarter itself, the sequential decline rather than transit bus AS fees, is that mostly just a mix

issue? Or is there something else going on there? Then how should we think about the trajectory of ASPs for Q4 into '26?

Paul Soubry^ So, the ASP -- first of all, you're intuition on that one is exactly right, mix. What we bid on that window, what we deliver in any quarter has a massive impact on the average selling price. What we put into our backlog is the bid price. So -- and between bidding going through the final build materials reconciliation, any changes the customer makes, any additional electronics and so do they put on, there could be a material -- not material, but a notable change from what the average selling price into the backlog is compared to what the actual average selling prices when it is delivered.

The other dynamic that happens, and as you can imagine, almost all of the stuff that goes into the backlog are multiyear contracts. And so, we put it into the backlog at current year selling price. As those options convert, we have purchase price indexes that get applied to those in the out years. So, it will depend on any changes that make the bill of materials, but also what the PPI is in those out years. That's what drives up the ASP between point of installation into the backlog compared to what happens when we actually deliver the unit.

Jonathan Goldman^ Okay. That's good color. Then thinking about the repricing time of manufacture. Would that include outside of the PPI, any increases on account of tariffs or I guess like force majeure type of events.

Paul Soubry^ No. Think of tariffs, if you and I were building a house, almost like an engineering change order. So, we are going back to the customers. Now I'm going every customer is different, every contract defer. For the most part, here's your bus for \$500,000. Here is an added charge for the tariff. Of course, the math associated with the tariff. For a while, we were able to use an average tariff application per unit now given some of the changes in the regs and accounts most customers want a specific tariff count based on what's actually in their bus. So that is an ad bill or an engineering change order type dynamic as opposed to an embedded part of the PPI or any other part of the pricing.

Jonathan Goldman^ Okay. That makes a lot of sense. I guess last one for me, and I guess Cam asked this earlier about the capital investment required in American Seating. But from an OpEx perspective, what level of OpEx would you require on your part to support American feeding into next year?

Paul Soubry^ None. I mean at the end of the day this is an investment we've made -- we have bought the debt. We are helping with investing in the business to operate and cash flow. They are still in two facilities. There will be a couple of million dollar spend to rationalize those facilities into one. It is not a notable amount. Of course, the operating cost will be managed by the business itself.

Operator^ I would now like to turn the call back over to Steven.

Stephen King^ Thanks, Michelle. So, we have one question from our webcast. So, I'll just read it aloud. Its reference is similar to what we had this morning in other cases, is the warranty provision of worst-case scenario and just finalizing the agreement with XALT leads to a scenario where the provisions will be reduced materially.

Brian Dewsnup^ Yes. So, I'll take that question. So, the -- what we booked is the liability side, which is our best guess today at what all the costs will be to retrofit all the batteries and support the warranty obligations on those batteries. So that's what's sitting in our financial statements right now.

Stephen King^ And the second part, Brian, the finalizing the agreement with XALT leads to a situation where the provisions will be reduced.

Paul Soubry^ Yes. So, we are both motivated, us and XALT to complete this agreement before the end of the year. So, we have meetings every day and every week in this negotiation. As part of us assuming some warranty obligations going forward, there's diligence on certain people and equipment and IP and software and so forth that is actively going on. So, the ultimate agreement and the economics associated with it would -- if it goes the way the term sheet would be a significant reduction in the provision. And so again we'll press release that as soon as we know.

Stephen King^ All right. Okay. Well, that was all of our questions. So, thanks, everyone, for attending today and for listening in. As always, please don't hesitate to reach out to us with any further questions. And all of the information you need is on our website including today's presentation. Thanks so much and have a great weekend.

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