
Operator

At this time, I would like to turn the conference over to Darren Seed, Vice President of Capital Markets and Communications. Please go ahead.

DARREN SEED speaking

Vice President, Capital Markets and Communications, Westport Innovations Inc.

Thank you and good afternoon everyone. Welcome to our First Quarter of Fiscal 2015 Conference Call. It is being held to coincide with the disclosure of our financial results earlier this afternoon. For those who haven't seen the release and financial statements yet, they can be found on Westport's website at www.westport.com.

Speaking on behalf of the company will be Westport's Chief Executive Officer, David Demers; and Westport's Chief Financial Officer, Ashoka Achuthan; and Westport's President and Chief Operating Officer, Nancy Gougarty.

Attendance at this call is open to the public and to media, but for the sake of brevity, we're restricting questions to analysts. You are reminded that certain statements made in this conference call and our responses to various questions may constitute forward-looking statements within the meaning of US and applicable Canadian securities law, and such forward-looking statements are made based on our current expectations and involve certain risks and uncertainties. Actual results may differ materially from those projected in the forward-looking statements.

Information contained in this conference call is subject to and qualified in its entirety by information contained in the company's public filings, and except as required by applicable securities laws, we do not have any intention or obligation to update forward-looking information after this conference call. You are cautioned not to place undue reliance on any forward-looking statements.

Now, I will turn the call over to David Demers.

DAVID DEMERS speaking

Chief Executive Officer, Westport Innovations Inc.

Thanks, Darren. Good afternoon, everyone. Thank you for your interest and support of Westport; 2015 is off to a strong start as you've seen. Cummins Westport is back delivering strong financial performance after two years of warranty reserve adjustments. And as you've probably seen, we had two important new product announcements with CWI this week, we are proud of the near-zero NOx engine announcement, which is going to take our already very low NOx emissions from our current engines down by another 90%, which makes them virtually zero.

On our Westport Operations and on the Corporate Investment side this quarter, we've managed to cut our cash used in operations by more than 70% compared to Q4 of '14. That's why we are continuing to advance our strategic programs, including HPDI 2.0 developments with a number of partners. Now, I'm not going to go into a lot of detail, because I want to get to Ashoka and Nancy, but I want to remind you that we said that we're focusing on four main components to our strategy in 2015 as we transition from an R&D and market creation company to a profitable, growing operating business.

So first, we said we're going to continue to invest with committed OEM partners in commercial products for the next decade that contains strong technology content, but we're going to defer investments where the market timing is uncertain or where there's commercialization risk or where there is just low market priorities. So, I think you can see from the reduction in the burn rate, as we complete programs and we reallocate resources to our core programs, we're starting to see the benefit of this idea. New partners and new programs are continuing, but they're increasingly being funded by customers and partners. Of course, we are still not complete and so we are investing heavily on the HPDI 2.0 program, which we expect to run into 2016.

Second, we said we're going to continue to rationalize and consolidate our current product portfolio. A lot of these products have been I call them first generation or the market just as it was getting going, we've talked about the last 10 years as being a market creation exercise. Well, now we're consolidating and rationalizing our product portfolio for cost reduction, for margin improvement, to make sure that we're delivering leading price performance, continuing improvements in terms of cost and price, and then of course pushing on to full system sales, which creates and extracts value beyond the individual components. I think good examples this quarter are the expansion and the improvement of our industrial products, the Volvo car launch—and we've had some good results from that—the Ford F-150 announcement this week, I think you can see the evidence that we're living up to that promise.

We talked last call we're looking at non-core asset sales, I think we can say today we've got more than \$50 million identified in potential value in this category and we're actively negotiating with a number of people on these ideas. This is not a distress sale. We are looking for reasonable returns, but we're confident that we can improve our cash liquidity this year through selected transactions of this type.

Fourth, we said we are going to continue to drive cost efficiencies and reduce our global overhead expenses. I hope this is very apparent with the drop below \$10 million in cash used in operations this quarter, which is dramatically below our Q4 number and of course dramatically below our 2014 average. We were burning about \$24 million a quarter throughout last year. So I think this is evidence of a big achievement on the refocusing and reprioritization we did at the end of 2014. We're going to continue to press down on this number. We'll continue to target mid-2016 for crossing into sustainable operating cash flow from our operations.

So with the short-term shock of the oil price and currency volatility at the end of 2014 behind us, we look forward to continued development of our business in 2015 and continued progress toward our vision of a transition from oil-based fuels like diesel and gasoline to clean, inexpensive natural gas.

So, over to Ashoka to take you through the numbers.

ASHOKA ACHUTHAN speaking

Chief Financial Officer, Westport Innovations Inc.

Thank you, David. Good afternoon, everyone. I will be providing you with highlights of our first quarter, actions we have taken to address our expenditures and cash position, and will then cover our financial outlook for 2015. Before I begin however, I would like to briefly remind you that we have realigned the structure of the Company's internal organization during this quarter as discussed in our fourth quarter news release. This realignment combines our historical operating segments, which were applied technologies, on-road systems, and off-road systems into a single operating segment which we now call Westport Operations. As we narrow the focus within certain business units and defer development of certain products and related programs, we believe that combining these units into one operating segment provides more meaningful information to our readers. Westport will continue to report Corporate & Technology Investments and each of the two major joint ventures as separate segments.

Total segments revenue which includes Cummins Westport, Weichai Westport, Westport Operations, and Corporate & Technology Investments was \$156.9 million for the quarter **ended September**—quarter ended March 31, 2015, a decrease of 33% over the same period last year. This decrease is primarily due to weakness at Weichai Westport, significantly lower

service revenue in North America, and the exchange impact of the euro, the renminbi, and the Swedish krona against the US dollar.

As David noted in the press release, the swift change in global energy pricing caused some short-term disruptions to our business plan. But these results were well within our expectations. For Westport Operations and Corporate & Technology, or Westport consolidated, we are reiterating our revenue outlook between \$110 million and \$125 million this year. A number of factors such as currency exchange impacts, geopolitical instability, and new product successes are included in our revenue outlook. These are detailed in our press release and I encourage you to read through them.

Westport's consolidated revenue for the first quarter this year was \$28 million compared to \$39.9 million for the same period last year. This 30% decrease is primarily due to the unfavorable impact of foreign currency translation from the euro to the US dollar, significantly reduced service revenue this quarter, and a large US light duty shipment in the first quarter of 2014. Within this, revenue from European operations, which accounts for 63% of Westport consolidated revenue, is showing signs of strength and increased to €15.7 million this quarter, up from €14.9 million in the same period last year. This excludes the recent acquisition of Prins. As noted however, this fact gets lost in currency translation as we report in US dollars.

Cummins Westport revenue was \$73 million on 2,278 units for the quarter, a decrease of 9% over the same period last year. This decrease was primarily due to the delay of a shipment to an Asian customer. This shipment will however be made in the second quarter of this year.

Weichai Westport's revenue was \$55.9 million on 4,385 units for the quarter, a decrease of 51% over the same period last year. This decrease is primarily due to a sudden drop in energy prices, some economic uncertainty in China, and a pull forward of emissions compliance systems into the Q4—into Q4 of 2014.

Moving on to operating expenses, I will outline some of the actions we've taken to reduce our operating expenditures and Nancy will go into operational details later. Westport Operations and Corporate & Technology Investments reduced its combined operating expenses by \$13 million for this quarter compared to the same period last year, primarily due to the prioritization of investment programs and reduced expenditures, as well as the favorable impact of foreign currency translation from the Canadian dollar and the euro to the US dollar. Westport will continue to drive cost efficiencies and reduce global overhead expenses. We believe our actions and strategic initiatives will be sufficient to carry the Company to reach positive consolidated Adjusted EBITDA in mid-2016, while maintaining the momentum required to launch major product initiatives, such as HPDI 2.0.

Moving on to net income, our net income from our Cummins Westport joint venture improved significantly during the quarter. Net income for the quarter was \$5.9 million, an improvement of over 800% compared to the same period in 2014. This improvement was largely related to the resolution of the warranty issues associated with the 8.9-liter engine. For Weichai Westport, net income for the quarter was \$0.3 million, a decrease of 40% over the same period last year due to a lower number of units sold as a result of the drop in energy prices and the emissions-related compliance pull forward I mentioned earlier. From a consolidated viewpoint, the quarter ended March 31, 2015 resulted in a net loss of \$17.2 million or \$0.27 per share. This compares to a net loss of \$23.9 million, or \$0.38 per share in the same period last year, an improvement of 29%. The improvement in net loss was primarily due to increased income in CWI and a significant reduction in our operational expenses.

Moving on to our cash balance and Adjusted EBITDA, as of March 31, 2015, our cash, cash equivalents, and short-term investment balance was \$71.3 million. Cash used in operations, excluding changes in working capital plus dividends received from our joint ventures, was \$9.6 million compared with \$33.4 million for the quarter ended December 2014, a sequential improvement of over 70%. Working capital changes consumed \$6 million this quarter and we have initiatives in place to improve our working capital performance over the upcoming quarters. We have a number of options with regard to the pace of product and market investments in addition to possible divestiture of non-core assets as David mentioned, to improve our company's cash position.

I would like to reiterate that our Management believes that our cash balance in combination with our actions around our operational expenses and our strategic initiatives will be sufficient to carry the company to positive consolidated Adjusted EBITDA in mid-2016.

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Moving on to Adjusted EBITDA and key steps on the path to profitability; Adjusted EBITDA loss from our operations segment for the quarter ended March 31, 2015 was \$1.4 million compared with a loss of \$1.6 million for the prior year. This year-over-year improvement was due to cost reduction efforts offset by margin loss due to significantly lower service revenue this quarter. Consolidated Adjusted EBITDA loss for the quarter was \$9.2 million compared with a loss of \$22.1 million in the prior year, an improvement of 58%. This was due to our overall improvement in our cost structure, prioritization of our investment programs, and higher net income from the Cummins Westport joint venture.

As you can see from our results, we are facing some headwinds from lower oil prices and economic turbulence in some markets, but we have made the necessary adjustments to get back on track and improve our bottom line and core cash burn. We believe we have the opportunities and the commitment to succeed in this market and I look forward to bringing you further updates on our progress in the next quarter.

With that, I will pass the call on to Nancy.

NANCY GOUGARTY speaking

President and Chief Operating Officer, Westport Innovations Inc.

Thanks, Ashoka. Today, I will focus my comments relative to the operational highlights and the priorities for the company. As mentioned earlier, the market is volatile, but we are seeing strong interest from OEMs to ensure that they have natural gas as part of their portfolio going forward.

So, with that, let me just give you some highlights relative to the various segments. Firstly, on the light duty side, our strategy on the light duty side relative to our Ford product portfolio is to offer a broad line of Ford products, where gaseous prep engines are available. So, with this, we are pleased to be operating one of the broader lines relative to the QVM process—or as a QVM. We are proudly **launching**—in the launch window at this point in time for a 2016 Volvo bi-fuel vehicle. In fact, I was in Sweden a couple of weeks ago and attended a ride-and-drive event in Gothenburg. I was very pleased with the vehicle and I would indicate to you that our customers who attended the ride-and-drive were very, very pleased, and impressed with the bi-fuel features and the vehicle of the new engines that Volvo is introducing here with natural gas.

The V60 and 70 bi-fuel vehicles do include Westport controllers as well as an array of ATG components. Good news is we are also seeing good pre-market orderings even before the customers have been able to do test drives of this at the dealerships. So, this is one of the items that I would tell you to look forward as we move forward through calendar year '15.

Also on the light-duty side on the industrial demand, we are seeing an uptake relative to the 2.4-liter engine and had a strong Q1. We're also expecting that as we offer the 3.8-liter later in the year, our industrial business will also have positive impact.

Secondly, if we look at the medium duty market, our GM DI product, which is a **bi—dual** fuel product, we have reached some important milestones of development with our launch partner, Tata. We are **also**—have entered into a new development contract phase with Tata for this with target completion by the end of this calendar year. Secondly, in the medium duty sector, our Enhanced Spark-Ignited product, or ESI product, continues to progress. In fact, we now have over 1,100 engine hours on our—on this technology. We are also seeing very positive traction with partners and pleased with some funding sources both privately and governmentally that will help us with this development activity.

Lastly, on the heavy duty sector, as always, we have to talk a bit about HPDI. We are seeing a big uptake relative to trucking from the OEM other than Volvo and Weichai. We are very pleased with the level of interest and feedback and we are also pleased with the feedback we're getting from the OEMs who are impressed with our knowledge, our results, and our

capability. Important to mention as well other than in the heavy duty truck market, we are also having tangible dialogue with other OEMs for applications and industrial, rail, and in mining.

Also in China, we are in our advanced development phase for the introduction of our China 5 HPDI engine with our joint venture, Weichai, and we're right now also monitoring some new central government plans for stricter regulations that we think will come in as early as calendar year '16. We see that this would be another opportunity for HPDI as well as our ESI products in the China market due to our emission standards.

As I close today, I think it's important for me to just reiterate some of the operational priorities that we are focused on: Revenue stability and growth through our OEMs as mentioned. Our financial performance is focused on gross margin and net income. Thirdly, we want to make sure that we execute our products at the right cost, at the right time, and in the right quality. Cash management is a strong focus for us as well as making sure that we have customer attractions through product offerings, technology, Westport talent, and innovative solutions for natural gas.

So with that, I would like to thank you and I will pass it back to the Operator for questions.

Operator

Thank you. We will now begin the question and answer session. If you would like to ask a question, please press star, and one on your touchtone phone. You will hear a tone to indicate you're in queue. For participants using a speakerphone, it may be necessary to pick up your handset before pressing any keys. If you wish to remove yourself from the question queue, you may press star, and two. There will be a brief moment while we poll for questions.

Thank you. First question is from Laurence Alexander from Jefferies. Please go ahead.

Jeff - Jefferies

Hi, this is Jeff on for Laurence. David, can you talk about how fleet trials are progressing versus say six months ago? Are customers testing longer than they had in the past, are they testing multiple engines? I'm trying to get a sense of when do you think CWI unit sales will accelerate past this 10,000 unit run rate per year?

David Demers - Westport Innovations Inc., Chief Executive Officer

I will flip to Ashoka, he is on the Board here we can...

Ashoka Achuthan - Westport Innovations Inc., Chief Financial Officer

Yes. We are—I am sorry your name was, Jeff?

Jeff Schnell - Jefferies & Company

Jeff.

Ashoka Achuthan - Westport Innovations Inc., Chief Financial Officer

Hi Jeff, this is Ashoka. We are quite happy with what we are seeing at CWI. We had some concerns about the impact of the 8.9-liter engine, but with those issues behind us and with the customers as happy as they are with our responsiveness, if you will, in addressing the issues, we are quite happy with the uptake. Clearly in terms of volumes, as you know, we closed out last year at 10,300-odd units. We are looking to have another good year. Customers have been repeat customers, it hasn't been the hundreds and hundreds of units as we would have liked to see, but at the same time we are seeing repeat orders in numbers that I would say meet our expectations today.

Jeff - Jefferies

And then on the portfolio changes, the opportunity to divest non-core assets you highlighted \$50 million in opportunity, can you elaborate maybe on is this certain products, is this regionally, or how are you thinking about that going forward?

Ashoka Achuthan - Westport Innovations Inc., Chief Financial Officer

Yes. I mean, to answer your first question, no, I can't elaborate too much. But to answer your second question about whether it's regionally, you know, it is—all our assets are in; it's across the board, across regions.

Jeff - Jefferies

Great. Thank you.

Operator

The next question is from Ann Duignan from J.P. Morgan. Please go ahead.

Mike - J.P. Morgan

Hi, this is Mike coming on for Ann. How is everybody doing?



David Demers - Westport Innovations Inc., Chief Executive Officer

Good Mike.

Ashoka Achuthan - Westport Innovations Inc., Chief Financial Officer

Good Mike.

Mike - J.P. Morgan

Wanted to ask quickly about some of the working capital metrics, we saw that the operating cash flow burn come down for the quarter, but DSOs are still pretty high—are up pretty significantly year-on-year, as are days on hand. Any color that you can give us about what you guys were doing to manage the cash flow that we can see?

Ashoka Achuthan - Westport Innovations Inc., Chief Financial Officer

Yes. I mean, our DSOs are high and they'll always be high for the simple reason that our terms with some of our larger customers in Europe are 180 days plus and that's the reality of the business there. What we try obviously to do as you have noticed is that we match our DPOs to offset those DSOs which we have to live with. The good news of course is we never had any significant bad debt issues and the terms are the terms with customers like Fiat in Europe.

Mike - J.P. Morgan

So we shouldn't expect to see those really come down meaningfully over time?

Ashoka Achuthan - Westport Innovations Inc., Chief Financial Officer

You will—I mean, I don't think that's what I am saying at all. I mean, as we have a broader mix of customers in our base and we increase our North American customer base, you will see that come down. But there are certain realities with the European market that we just have to face and deal with accordingly.

Mike - J.P. Morgan

Okay.

Operator

The next question is from Eric Stine from Craig-Hallum Capital Group. Please go ahead.

Aaron Spychalla - Craig-Hallum Capital Group

Yes. Hi guys, this is Aaron Spychalla on for Eric. Thanks for taking the questions and nice quarter.

David Demers - Westport Innovations Inc., Chief Executive Officer

Thanks, Aaron.

Aaron Spychalla - Craig-Hallum Capital Group

Maybe first on Weichai, you talked a little bit about it Nancy, but can you just maybe testing for the 12-liter and development on the 10-liter, can you just—I know it's up to Weichai, but any thoughts on when we might see volumes there?

Nancy Gougarty - Westport Innovations Inc., President and Chief Operating Officer

Well, I would say at this point in time that we're advancing to the market. We believe that the product has gone through the development cycle and we do believe that as some of the central governments push for cleaner air in activities around emissions that will help us propel the product to the market in a nice way, but I think giving you specific volumes and that kind of thing, I would say at this point in time, we'll wait and do that at some point in time later. I think that the China market is definitely ready for the product.

Aaron Spychalla - Craig-Hallum Capital Group

Fair enough. Then, I guess maybe sticking with Weichai a little bit, the pull forward from the China 5 standards, how should we think about volumes there for the rest of the year? Are you thinking sequential improvements or can you just talk about that a little bit, please?

Nancy Gougarty - Westport Innovations Inc., President and Chief Operating Officer

Relative to the China market, I guess that at this point in time, I think we have—we still have strong confidence and I would say that I was in China just a couple of weeks ago and our partner who has—who lives in it each and every day tells us that the market's still there for the product and we believe it's quite strong. We do think it's an important product portfolio as I said, as they tried to tackle some of these issues relative to pollution. So, we continue to believe very strongly that we are going to continue to see positive things happening in the China market.

Aaron Spychalla - Craig-Hallum Capital Group

Okay, good. And then maybe last one for me, just on the cost-cutting side of things, you guys have made substantial progress there, where do you think we can ultimately get to and kind of what inning are we in maybe relative to the run-rate we saw in Q1?

Ashoka Achuthan - Westport Innovations Inc., Chief Financial Officer

Yes, I think we have got on record of saying you can expect to see a 60% decline in our operating cash flow year-over-year. I think we still stand by that statement. And we have also gone on record saying our objective is to get to consolidated positive Adjusted EBITDA by the middle of 2016 and we stand by that statement as well.

David Demers - Westport Innovations Inc., Chief Executive Officer

So in turn—I guess maybe in turn, Aaron, it's probably going to be ramping down between now and the middle of '16 to zero. In terms of—I would be pretty sure it's not necessarily a straight line, but it could be a little lumpy, but...

Ashoka Achuthan - Westport Innovations Inc., Chief Financial Officer

That tells the trajectory.

David Demers - Westport Innovations Inc., Chief Executive Officer

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Yes.

Aaron Spychalla - Craig-Hallum Capital Group

All right, sounds good. Thank you.

Operator

The next question is from Jerry Revich from Goldman Sachs. Please go ahead.

Jerry Revich - Goldman Sachs

Good afternoon.

David Demers - Westport Innovations Inc., Chief Executive Officer

Hey, Jerry.

Jerry Revich - Goldman Sachs

I'm wondering if you folks can talk about the timing of payments from the JVs, you had a nice cash inflow this quarter, should we be thinking about cash flow from JVs approximating net income over the balance of the year? Just frame that out for us, because I know that's moved quarter-to-quarter.

Ashoka Achuthan - Westport Innovations Inc., Chief Financial Officer

Well, the good news Jerry is that we have gotten the warranty issues that were absolutely destroying our results over the past few quarters. We have gotten that under control and a significant portion of the improvement in CWI revenue and income this quarter had to do with warranty accrual reversals. We expect that trend will continue, obviously not forever, at least until such point that we bring the warranty accruals related to this product down to, shall we say, much more normal levels. So, yes, I think you can expect positive improvement from CWI, but I wouldn't necessarily correlate that to mean current quarter times four.

Jerry Revich - Goldman Sachs

Okay. In terms of the sequential revenue improvement in the core operations of about \$5 million, can you step through the moving pieces? I know \$2.5 million of that was, Ashoka, which you mentioned last quarter was effectively an accrual adjustment on revenue. What's the other \$2.5 million? Which businesses drove that?

Ashoka Achuthan - Westport Innovations Inc., Chief Financial Officer

On core operations, you know, our European operations, if you exclude the foreign exchange impact was up strongly under the circumstances. Sequentially, what else improved sequentially? No, I think sequentially it was our European operations. Off the top, I can't think of anything else right now.

Jerry Revich - Goldman Sachs

Okay, thank you. Lastly on the Ford business, I know you have a couple of new platforms out there, can you just talk about how we should think about revenue trajectory for that business? I know it's been tough with lower diesel costs and gasoline costs, how should we think about the opportunity set going forward based on the additional platforms?

Ashoka Achuthan - Westport Innovations Inc., Chief Financial Officer

You are absolutely right Jerry, if there is one business that was impacted very heavily by the drop in gasoline prices it was Ford business in North America. I mean, the delta between natural gas and CNG has come down significantly. The customer base they have tends to be the kind of people who make relatively short-term decisions. So the Ford business, yes has been impacted by that. We have taken action from a cost structure standpoint to offset that drop in revenues and we will see impact of those actions beginning next quarter. However, there's some really good news there as well, I mean you heard the news release about the Ford F-150 now being available in gaseous prep, but as the 2016 model that's going to be available beginning the end of this year. Unfortunately, that will mean too much revenue for us this year, but certainly it could be big news in 2016.

Nancy Gougarty - Westport Innovations Inc., President and Chief Operating Officer

I think also the alliance that we have now...

Ashoka Achuthan - Westport Innovations Inc., Chief Financial Officer

With ASV.

Nancy Gougarty - Westport Innovations Inc., President and Chief Operating Officer

With ASV is also just another indication that we are looking and as we go into the market and look at where this product fits. So as we do this a lot of interest obviously from school buses and from shuttle buses (audio interference 30:36) tie up with them which we have made just, I think, a couple weeks ago is also I think an indication that as we look at this market that we're really pleased. But it's—we're going to attack it from every angle in terms of making sure that we are successful here, because we have a great product and we do have good feedback from the customers. It's just unfortunate that oil pricing caught us for this particular business. But we're feeling quite good about the product offerings and our alliances.

Jerry Revich - Goldman Sachs

Okay, thank you.

Operator

The next question is from Rob Brown from Lake Street Capital Markets. Please go ahead.

Rob Brown - Lake Street Capital Markets

Good afternoon. First, on the Cummins 6.7-liter—or the Cummins Westport 6.7-liter, do you get the sense of what that market opportunity is and where you're at in terms of getting OEMs lined up to do similar products?

Darren Seed - Westport Innovations Inc., Vice President, Capital Markets and Communications

(Inaudible 31:37). If we know the market size for the bus range has increased dramatically, typically the heavier 8.9-liter that we've been selling so far today, Rob, probably the market size was in the realm of 5,000 school buses, just because you're targeting those larger buses. With the 6.7-liter today targeting shorter and Type A buses, that actually jumps logarithmically up towards even 25,000, 30,000 units as a targeted market size. So there is no doubt Rob, it's a much bigger, much bigger, market opportunity for Cummins Westport in 6.7-liter.

Rob Brown - Lake Street Capital Markets

Do you need to go through the cycle of OEM adoptions with this or is that sort of worked out or in process?

Darren Seed - Westport Innovations Inc., Vice President, Capital Markets and Communications

Yes, and I'm sure it'll be worked through with most of the bus OEMs. I know we've had a good relationship with customers such as Blue Bird and Collins and other bus manufacturers. So we'll just continue to work with our existing bus OEM channels through CWI that we have—that we already have the relationship with. It's just in the product expansion which gives our customers more choice.

Rob Brown - Lake Street Capital Markets

Great. Thank you. Then on your non-core assets sales, sorry if I missed this, but did you sort of give a sense on timing of those, are those this year near-term, kind of depends on how it does, what's the timing there?

Ashoka Achuthan - Westport Innovations Inc., Chief Financial Officer

I would say keep your ears peeled for the next two quarters.

Rob Brown - Lake Street Capital Markets

Okay, thank you. I'll turn it over.

Operator

The next question is from Mike Baudendistel from Stifel. Please go ahead.

Mike - Stifel

Thank you. I think the last name was a little botched there, but that's okay. Just on the subject of (cross talking 33:37).

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Darren Seed - Westport Innovations Inc., Vice President, Capital Markets and Communications

Sorry, Mike I know you're—I know the spelling, I know who you are Mike, it's okay.

Mike - Stifel

Okay. Thanks Darren, just to follow-up on that last question. I think you said that there is \$50 million you're targeting for sales of non-core assets, is that \$50 million you're expecting to raise in cash from those sales?

David Demers - Westport Innovations Inc., Chief Executive Officer

That's correct.

Mike - Stifel

Okay, great. And then the question on the working capital earlier, you say in the press release you're expected to improve, does that mean it's not going to be a drag going forward or do you expect it to contribute to cash when we think about your cash flow the next few quarters?

Ashoka Achuthan - Westport Innovations Inc., Chief Financial Officer

We'll get to contributing of cash, but over the next few quarters, yes, it will stop being a drag and we expect it to turn around within two to three quarters.

Darren Seed - Westport Innovations Inc., Vice President, Capital Markets and Communications

Yes, I mean, we're still—I guess, Mike, we're still targeting the middle of 2016 for positive cash. So, how much gets taken out over the next two or three quarters for calendar '15. There's obviously some key contributors to Jerry's question earlier from- around the contributions from Cummins Westport. That's obviously going to have a big impact on cash. You have also got some product improvements, some new products getting into the market. So, we've got some things that are helping us, but still it's a path, it's not necessarily an incredible drop, Mike.

Mike - Stifel

Okay, and then you mentioned that there's a \$13 million improvement in operating expenses and a portion of that was related to foreign currency translation, could you just kind of break out the foreign currency impact, please?

Ashoka Achuthan - Westport Innovations Inc., Chief Financial Officer

Yes, I wouldn't go—it's substantially operational improvements.

Mike - Stifel

Okay. The last one for me, the F-150 announcement, can you just explain to us who exactly you're targeting with that product. Is it mostly fleets primarily?

Ashoka Achuthan - Westport Innovations Inc., Chief Financial Officer

Primarily fleets, correct.

Mike - Stifel

Okay, thanks. That's all from me.

Operator

As a reminder, if you'd like to ask a question, please press star, and one on your touchtone phone.

The next question is from Noah Kaye from Northland Capital Markets. Please go ahead.

Noah Kaye - Northland Capital Markets

Hi, good afternoon everyone.

David Demers - Westport Innovations Inc., Chief Executive Officer

Hi, Noah.

Noah Kaye - Northland Capital Markets

Just wanted to ask—and I apologize if this was addressed earlier in the comments—could you give us an update on the railcar opportunity? Are you seeing tenders out there for LNG, CNG, what are you seeing right now in the marketplace?

Nancy Gougarty - Westport Innovations Inc., President and Chief Operating Officer

I would say that what we're seeing at this point in time, and as David commented, this is one of the products that we think will ultimately will have a place, but at this point in time we are perhaps a bit ahead of the market. I think that still there is quite a bit of activity going on in the rail side talking about what the regulations are going to be for some of these tanks. So what we have done at this point in time is that we need to just take a moment to really make sure we understand where the regulations are going to head and then do it. We continue to actively support these on the road and we are getting—we have them now linked up with engines and getting miles on them. So, it's not that this is—that they're sitting there collecting dust. We're continuing to work and learn on them, but at this point in time, I think we're—from a development perspective and additional market creation at this stage of the game, we're going to wait and see the regulations, get the feedback from these test units, and then come back when we think the market's really ready.

David Demers - Westport Innovations Inc., Chief Executive Officer

Yes, I think you have to remember—I'll just jump in—and we have to remind people that we said locomotives are likely going to be in the 2017 timeframe. So, we have got lots of time. This is an industry that has got pretty tight regulatory burden, let's say, so there's still lots of work before we can say that products commercially industrialize and ready to go in the marketplace. So, yes, we have a team supporting the CN, the first port tenders are at CN, but we're not planning to deliver any more this year. It will be in line with the development on the locomotive side.

Nancy Gougarty - Westport Innovations Inc., President and Chief Operating Officer

But we are seeing uptake relative to OEMs that are interested in rail. So, on the HPDI side, so from that side I think that rail still looks like it's there, but...

David Demers - Westport Innovations Inc., Chief Executive Officer

But now we're going to pay so long as market demand develops and as customers frankly pay for it.

Noah Kaye - Northland Capital Markets

Okay, great. Thanks. And then just turning to the 6.7-liter for CWI, obviously a very sizable market, addressable market, how do we think about as this ramps up kind of the impact for CWI as a whole with respect to gross margin and the cash that the segment can throw off?

Ashoka Achuthan - Westport Innovations Inc., Chief Financial Officer

We are not going to lay out volumes but as David mentioned it's a very attractive market in terms of size, opportunity, it's a robustly developed engine. We have the learnings from our 8.9 that have been incorporated into it. So things are looking very positive for the engine and it's going to be launched in 2016 as mentioned.

Darren Seed - Westport Innovations Inc., Vice President, Capital Markets and Communications

Noah, and I know you've known us for quite some time, typically when we launch an engine within the joint venture it does get burdened with a bit of a more conservative warranty accrual at the outset. So gross margins may be impacted just by more or less a conservative warranty accrual process. But the moment that gets any kind of experience and as Ashoka said, we know these engines, we've poured all of the lessons learned from the 8.9-liter into a 6.7. Hopefully that's a short curve, but there may be a slight effect on margin just depending on the initial volume that gets out the door and how long we have to carry that conservative accrual.

Noah Kaye - Northland Capital Markets

I see. If that—if you do have to take a conservative accrual and combine with more operating expense, you see a little bit of a drag on net income, but really specifically thinking about the accrual, does that actually impact the cash that the JV is going to throw off because these are not...these are accruals right?

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Darren Seed - Westport Innovations Inc., Vice President, Capital Markets and Communications

No, you're—I might—there's one small correction maybe Noah is that don't forget that cash sits on the balance sheet. Then secondarily is the 6.7-liter is—the gross margin is just—it's a conservative accrual.

Noah Kaye - Northland Capital Markets

Right.

Ashoka Achuthan - Westport Innovations Inc., Chief Financial Officer

That should be incremental gross margins.

David Demers - Westport Innovations Inc., Chief Executive Officer

It should be, yes. Then conversely it's not necessarily a drag on operational expenses, it's just literally, it's a margin.

Ashoka Achuthan - Westport Innovations Inc., Chief Financial Officer

Yes. It's not a drag on the cash. He is right. I mean, (cross talking 41:09).

David Demers - Westport Innovations Inc., Chief Executive Officer

If you take a look at CWI this quarter, I think you'll see I used CWI is backed as a lead-in and it is certainly a sunnier outlook for CWI. Margins are good. The products are performing well, lots of market opportunity. Then this new product, the R&D expenses are in the quarter. So as we launch the product, we're going to drop off the R&D expenses. And yes, there will be a conservative warranty accrual but it'll be incremental margin. So if anything it should help cash flow out of the joint venture as we get this launched.

Noah Kaye - Northland Capital Markets

Okay, that's great and very encouraging. Thanks so much.

David Demers - Westport Innovations Inc., Chief Executive Officer

Thanks, Noah.

Operator

The next question is from John Quealy from Canaccord Genuity. Please go ahead.

John Quealy - Canaccord Genuity

Good afternoon, folks. I apologize if you'd touched on this earlier, but your parent of the joint venture partner Cummins entered into an agreement with Agility, can you talk about does this overlap anything from a JV perspective that Westport has or technology or can you just talk about the developments in the ecosystem at a tradeshow this week?

David Demers - Westport Innovations Inc., Chief Executive Officer

No, I think it's just a sign that people are starting to work together. I mean, Agility is doing great work primarily with C&D packaging. As you've seen, every one of those vehicles has a Cummins Westport natural gas engine. I mean, that's the whole point of this. So I think it's really a good move that Cummins distributors are going to be starting to support natural gas vehicles, that's really what the news is all about. So that's good for Cummins Westport, it's good for Agility, it's good for the industry. It just makes sense that we are going to start to get more coordinated as an ecosystem to improve the customer experience. I think this is just a great sign. But no it's not really a change if you're talking about the relationship between Cummins and Westport. It has—this is something we've been working on together for a while.

John Quealy - Canaccord Genuity

Got it. Then I'm sorry if you touched on this as well, but in the off-highway market, and I'm talking about earthmoving equipment and things like this, can you talk about the next data points, I've realized it's a long lived market and it's probably a couple of years away, but what are the latest developments in that sort of yellow iron market? Thanks guys.

David Demers - Westport Innovations Inc., Chief Executive Officer

Yes. I haven't seen a lot of movement on that. I think there's still just a lot of anxiety about the capital budgets in the mining industry and certainly oil and gas capital budgets have been, should we call it muted. So I'm looking around for the right word. So there's certainly still lots of interest in natural gas and a lot of big mining customers have been looking at this for years, but what the program is running at the pace that it's going to run at based on the arrival of purchase orders. Let's put it that way. So, we can—we leave it with our friends at Caterpillar that I think the intent is there to deliver LNG to this industry and they're just going to have to be some critical mass around orders before we see them hitting the market.

Ashoka Achuthan - Westport Innovations Inc., Chief Financial Officer

And on the operating expense side, these are the kinds of programs that we defer our expenditures on as well. So, this falls into our prioritization of programs depending on the lead times involved. So, in a way it's helped us address our R&D...

David Demers - Westport Innovations Inc., Chief Executive Officer

Yes, it lets us spread our resources over more programs over more time. I think it's clear if you look around at the gas industry, there is a lot of LNG, call them, producers, providers, distributors seeing this as a really attractive market. So, it also depends on how the ecosystem develops on that front. These are very large potential consumers of fuel. So, there's a lot of industrial infrastructure that's going to have to be built for, much like the rail business. So, as that business model gets worked out, we're still, call it, highly confident that 10 years from now you're going to see a lot of LNG in these applications. There's no need for us to get out too far in front of the demand. I think it's clear they need the technology. They need the HPDI technology to deliver the performance. They're going to need LNG to deliver the energy density in the range. So, this is going to happen and we're ready and waiting to help it happen, but we're turning our focus right now to markets that are this year and next year.

John Quealy - Canaccord Genuity

Great, thanks.

Operator

There are no more questions at this time. I will now hand the call back over to Mr. Seed for closing comments.



Conference Call Transcript

First Quarter 2015 Financial Results: May 7, 2015



Darren Seed - Westport Innovations Inc., Vice President,
Capital Markets and Communications,

Thanks very much everyone for your interest and look forward to seeing everybody in our next Q2 conference call estimated to be around the end of July.

Operator

This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.