

Conference Call Transcript

Third Quarter 2021 Results: November 9th, 2021

Operator

Welcome to Westport Fuel Systems' Third Quarter 2021 Results Conference Call.

As a reminder, all participants are in listen-only mode and the conference is being recorded.

I would now like to turn the conference over to Christian Tweedy, Westport's Investor Relations Representative. Please go ahead, Mr. Tweedy.

CHRISTIAN TWEEDY speaking

Investor Relations Representative

Good morning, everyone. Welcome to Westport Fuel Systems' Third Quarter 2021 Conference Call, which is being held to coincide with the press release containing Westport Fuel Systems' financial results that were distributed yesterday.

On today's call, speaking on behalf of Westport Fuel Systems, is Chief Executive Officer David Johnson and Chief Financial Officer Richard Oraziatti.

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 the U.S. and applicable Canadian Securities laws, and as 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, so you are cautioned not to place undue reliance on those statements. The information contained in this conference call is subject and qualified in its entirety by the information contained in the Company's public filings.

I'll now turn the call over to you, David.

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Thanks, Christian.

Good morning, everyone. Thank you for joining us to review Westport Fuel Systems' results for the third quarter of 2021.

As world leaders meet in Glasgow for the 2021 U.N. Climate Change Conference, well-known as COP 26, we know we're facing a pronounced climate crisis with an increasing need for each sector in our global economy to take action now. Globally, transportation is responsible for nearly a quarter of greenhouse gas emissions, so we must continue to use all available options to reduce CO₂, and we must do so quickly, effectively, and affordably. We need to dramatically shift the mix of what we drive to affordable clean transportation technologies that make an impact on our roads today and into the future.

At Westport Fuel Systems, our products are already playing an important role in reducing carbon in transportation and helping to enable a clean and prosperous future for all. We're confident that our products will continue to do so with increasing impact this decade and next. Additionally, our recent ESG Report highlighted operational improvements we've made to reduce our greenhouse gas emissions by 34% and our greenhouse gas intensity by 21% year-over-year. These are good results, and we look forward to continuing to do our part to lower our operational carbon footprint.

Furthermore, we know that the biggest contribution Westport Fuel Systems can make to respond to this challenge is to increase the production, sales, and use of our product. Already today, there are thousands of HPDI-powered trucks in operations in Europe, fuelled by low-carbon LNG and bio-LNG, a carbon neutral fuel. These trucks have avoided producing tons of CO₂ and will continue to avoid producing tons of CO₂ emissions for years to come. Without HPDI, these trucks would be powered by diesel engines and fuelled with diesel fuel, and would emit dramatically more CO₂. HPDI is making a tangible impact on carbon reduction now with LNG and bio-LNG, and into the foreseeable future when green hydrogen is used with our HPDI technology.

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I'd like to draw your attention to a few highlights from our third quarter and share some market insights. Then Richard will take you through a more detailed review of our Q3 financial performance.

The third quarter was challenging for us, as it was for OEMs and other Tier 1 suppliers in the automotive sector. Global supply chain challenges for semiconductors and other commodities are negatively affecting the entire industry. Despite this, we were able to post an improving trend in the Company's performance, but not as strongly as we expected, considering the strong end-user demand for our products. Our HPDI independent aftermarket and delayed OEM sales were constrained by lower-than-forecast production.

Despite these challenges, we generated revenues of \$74 million in Q3, up 14% compared to the same period in 2020; however, lower-than-expected vehicle production and sales volumes, due to the supply chain shortages, combined with higher operating and R&D expenditures, caused us to incur a net loss of \$5.8 million this quarter.

Our OEM segment rebounded from last year, up 26%, with revenues of \$48 million in the third quarter compared to \$37 million in Q3 of last year, bolstered by higher light-duty OEM and sales volumes, and by our Q2 acquisition of Stako, a leading manufacturer of LPG fuel storage systems. Despite ongoing headwinds from the global supply chain, we expect Q4 will contribute to, and confirm, our full year growth trend.

The European market continues to be a key driver for our business. The refuelling infrastructure in Europe for alternative fuels continues to grow. NGVA Europe reports there are now 455 LNG stations and nearly 4,100 CNG stations across Europe. Italy, Spain, and The Netherlands continue to offer important financial support for alternative fuels and alternative fuel vehicles, while Sweden recently introduced long-term support for biogas production to create a circular economy and to increase the use of sustainable energy in the transportation sector.

In Germany, the potential for bio-LNG to reduce greenhouse gas emissions in trucking has recently been shown to be as much as 80% on a well-to-wheels basis. Europe remains supportive, and we believe our products and global footprint will remain an advantage for our OEM customers as they adopt our clean transportation solutions.

There is, today, no other cost-competitive alternative with the benefit that HPDI delivers for long-haul, heavy-duty transport, and with the growth of renewable natural gas and green hydrogen, HPDI will continue to do so for decades. Fleets are pursuing heavy-duty vehicles

equipped with HPDI and fuelled by LNG and RNG for their lower total cost to operation, comparable driving performance to diesel engines, and a reduction in their overall carbon footprint. HPDI-powered trucks are being deployed in high-mileage applications that have historically depended on the diesel engine running on high-carbon diesel fuel.

Our business in Europe is built on built on fully developed and fully validated products that use clean alternative fuels and respond economically to the environmental challenges we face. Sales from our European launch partner have grown 43% year-to-date compared with 2020. Customer and market feedback continues to be positive due to the real world benefits HPDI delivers. Real world HPDI benefits include vehicle performance for the driver, lower cost for fleets, and environmental benefits for our industry and the climate. We expect a strong Q4 for HPDI and we see opportunities to grow in markets around the world.

You may have noticed that markets are experiencing a surge in energy prices. Both natural gas and crude oil prices have doubled over the last 12 months. Instability in fuel prices creates challenges for our business as buyers make purchasing decisions on the total cost of ownership between vehicles fuelled by petrol or diesel versus those fuelled by clean alternative fuels. A meaningful price advantage for alternative gaseous fuels versus traditional liquid fuels provides the economics that support purchasing vehicles with our products.

Higher fuel prices make an economic advantage of a lower-cost gaseous fuel even more desirable. Due to the environmental benefits of cleaner-burning, lower-carbon gaseous fuels, we expect any new normal will continue to offer economic advantages for alternative fuels, and therefore support the long-term growth potential of our business. We anticipate these commodity fuel price challenges to be transitory, and with a return to stable market conditions, the outlook for our business and our technologies will be strong.

Unstable energy markets are also in China and have driven up LNG prices significantly in recent weeks, and are creating headwinds for the natural gas truck market there. While these are not expected to endure, they are nevertheless impacting the segment today. That said, HPDI-powered vehicle models have been certified and field trials are ongoing. We're continuing to work with our partner, Weichai, to launch the product successfully with their vehicle OEM customers.

Last week, we announced the award of a tender issued by NAFTAL, a branch of the Algerian National Oil and Gas Company, to supply 60,000 LPG systems over the next 18 months, with related spare parts for a total value of about €9 million. We have a continuing relationship with

NAFTAL, having supplied over 120,000 LPG kits in the last six years. One can clearly see, in these figures, an acceleration of LPG-fuelled vehicles in this market. There are in Algeria today more than 500,000 LPG vehicles supported by a network of 680 fuelling stations. By 2024, LPG vehicles are projected to more than double to over one million vehicles, or almost 20% of the vehicles on the road, up from 10% today. This growth will be supported by an expanded network of 1,600 fuelling stations.

Turning now to India, I want to spend some time this morning highlighting the Indian market, some wider trends occurring there, and how we're working to boost our competitive position in that country. At the recent U.N. General Assembly, India made commitments to increase their installed capacity for renewable energy to 450 gigawatts by 2030, and to develop and implement a National Hydrogen Energy Mission to scale-up annual green hydrogen production to one megaton by 2030.

The Indian and U.K. governments just recently announced a collaboration on clean energy which will boost climate resilience and advance clean energy deployment. Climate is one of the pillars of the India-U.K. 2030 roadmap.

India was also recently ranked third in the Renewable Energy Country Attractiveness Index released by the professional services firm Ernst & Young, which ranks the top 40 country markets on their handling of the renewable energy investment and deployment opportunities. These government initiatives helped to support our position as a leading supplier of clean, affordable solutions in the country taking necessary aggressive steps to decarbonize. The government in India is dramatically expanding the availability of natural gas fuelling stations to 10,000 by 2030 as part of their strategy to focus on natural gas for clean, cost-effective transportation. With the implementation of the broad standard six emissions requirements in April of 2020, the demand for our products has already increased significantly as diesel engines with the required ash treatment are now far more expensive and far less cost-effective.

With our strong position in India today and the significant growth opportunity India represents to Westport Fuel Systems, I'm pleased to announce that Hitendra Mishra has recently joined Westport Fuel Systems as our Managing Director for India. Hitendra joins Westport from Volvo Eicher Commercial Vehicles, where he most recently served as Senior Vice President and Head of their Components business. I couldn't be more excited to have Hitendra onboard to lead us in what is an important growth market for natural gas vehicles. We'll have more to share on our plan for growth in this important market in the coming months.

Over the last nine months, we have made important progress working with hydrogen. In January, we announced our project with Scania to assess their engine running on hydrogen using our HPDI system. This project is ongoing and we look forward to the chance to share updates with you.

In February, we jointly published a white paper with AVL, detailing how internal combustion engines using hydrogen and HPDI offer a more affordable path than fuel cells for long-haul trucking applications. In March, we announced the successful demonstration of hydrogen with HPDI: more power, more torque and higher efficiency compared with diesel and natural gas fuelled engines.

In April, we presented the industry our results showing hydrogen HPDI offers the highest power density, improved efficiency, and is the most robust approach for using hydrogen internal combustion engines for heavy-duty applications.

In July, we announced a collaboration with TUPY, a leading specialist of casting and machining of highly engineered structural components, and with AVL to develop a highly efficient hydrogen internal combustion engine for heavy goods transportation. The direct collaboration aims at combining advanced material and casting technology with the latest hydrogen internal combustion engine technology using our high-pressure direct injection system. Interest in our hydrogen HPDI solution is growing, and I'm proud of our achievements in such a short amount of time, and I'm bullish on the potential for growth in this important clean fuel area.

We believe we have a disruptive, game-changing technology using hydrogen internal combustion engine and HPDI. Being able to offer OEMs diesel engine power, torque, durability, and efficiency with near zero carbon emissions, with a lower total cost of operation than fuel cells, is a compelling solution for OEMs and our customers. For OEMs, the ability to leverage pre-existing manufacturing and engineering capabilities is vital from both a cost and sustainability perspective, particularly being able to avoid massive manufacturing capital investments and sourcing rare earth metals required for fuel cells and batteries.

We're seeing an increasing support globally for both the private and public sectors for the potential of hydrogen as an eventual zero emissions fuel of choice. Earlier this year, the European Commission announced the Fit for 55 package, proposing measures to reduce greenhouse gas emissions by 55% by 2030 from 1990 levels, as well as outlining a framework for a carbon neutral Europe by 2050. This package is important as it offers a significant boost to

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the European hydrogen industry through a 50% target on the share of renewable hydrogen consumption and an expansion of hydrogen refuelling stations along with core networks.

As disclosed by the Hydrogen Council in their midyear update, since February, there has been a 60% increase in the announcements of large-scale hydrogen projects, bringing the global total to 359. The total investments into these projects and along the value chain is approximately \$500 billion through 2030, of which roughly a third of these investments are considered mature. The Hydrogen Council reported that the estimated investment in hydrogen projects is increasing by \$1 billion every week.

As you're all aware, our Cummins Westport joint venture is scheduled to end December 31, 2021. As per our agreement, both Cummins and Westport Fuel Systems had equal rights to the joint venture's intellectual property. We continue to work with Cummins to wrap up the final terms related to the conclusion of the joint venture.

We expect engines with our HPDI technology will make an important contribution in the North American market, much as they have in Europe, and that they'll capture market share from SI products, as has been our experience in Europe.

The North American long-haul, heavy-duty market for natural gas, biogas, and hydrogen combustion engine products is modest in size today, but there are lots of reasons to be bullish on opportunities in this part of the world. For fleets of large vehicles, we're looking for immediate and significant carbon reduction solutions. Alternative fuels like natural gas and biogas, and eventually green hydrogen, can play an important part in this decarbonization effort.

The growing supply and availability of RNG, of fuel produced from capturing naturally occurring methane and using it as a transportation fuel, is compelling already today. We believe this compelling story for fleet operators needing to decarbonize is working today and will drive continued growth. This two-pronged approach, fossil LNG and RNG, is the reason why major fleets are recognizing that it's the easiest, quickest and most cost-effective way to meet their sustainability goals.

Now, over to Richard for more detail on our third quarter results.

RICHARD J. ORAZIETTI speaking

Chief Financial Officer, Westport Fuel Systems

Thank you, David.

As David described earlier, we had a challenging quarter financially and operationally due to the impact of supply chain challenges from the shortage of semiconductors and other materials.

Our revenues of approximately \$74 million were 14% higher year-over-year, driven mainly by continued recovery of sales volumes in our light-duty OEM businesses, and also the addition of \$7.1 million from our recently acquired fuel storage business. This was partially offset by the decrease in revenues in our independent aftermarket business. Revenue is lower sequentially due to the continued supply chain challenges, which was a drag on the growth rate of our HPDI product sales to our initial OEM launch partner and also on the production and sale to our independent aftermarket and delayed OEM customers.

Gross margin was comparable year-over-year but decreased sequentially to \$10 million for a gross margin percentage of 14%. This was mainly due to lower sales volumes and a higher sales mix to lower-margin customers, particularly to Indian and Russian OEM customers in our light-duty OEM business.

Our equity income from CWI decreased by \$1.1 million to \$3.8 million year-over-year, primarily due to higher extended warranty coverage recorded during the current quarter.

Net loss for the quarter was \$5.8 million compared to net income of \$0.8 million for the same quarter last year. The \$6.6 million decrease in earnings was primarily the result of increased spending in research and development expenditures for heavy-duty OEM, lower foreign exchange gain, and an increase in income tax expense compared to the prior-year quarter. The prior-year financials also benefited from \$1.1 million in government-sponsored wage subsidies compared to \$0.2 million this quarter.

This quarter, our Adjusted EBITDA was negative \$1.4 million, a decrease of \$5.4 million compared to the same period in 2020, mainly due to lower gross margin and higher expenses, as described before.

Now turning to our operational performance from our business segments. In OEM, our revenue for the current quarter was \$48 million compared to \$37.4 million for the prior-year quarter.

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The improvement in revenues was driven by higher year-over-year sales volumes in the light-duty OEM businesses to Indian and Russian OEM customers and was partially offset by pressure on sales to our Western European-based OEM customers. Further, we had \$7.1 million in revenues from our fuel storage business.

Heavy-duty OEM revenue and sales volumes were comparable year-over-year and reflect a negative impact to the growth trajectory for manufacturing delays caused by the shortage of semiconductors on our initial OEM launch partner. Despite the headwinds from supply chain issues and increases in LNG prices, we expect to see continued growth in heavy-duty OEM sales through the remainder of this year as production recovers.

Gross margin increased by \$0.5 million year-over-year, mainly due to the addition of the fuel storage business, partially offset by margin pressure from delayed OEM, heavy-duty OEM, and light-duty OEM, which contributed to the decrease in gross margin percentage. The operating loss of \$7.4 million reflects our investment in the development of our HPDI technology and lower gross margin, as mentioned. As our sales volumes grow, the profitability of heavy-duty OEM will improve through economies of scale in production through our supplier network.

Now turning to the independent aftermarket. Revenue for the third quarter decreased by 6% to \$26.3 million compared to the prior-year quarter primarily due to lower sales caused by the disruption in global supply chain, including semiconductor chip shortages and the continued pressure in the traditionally important Western European markets.

Gross margin decreased by \$0.4 million this quarter to \$7 million for a gross margin percentage of 27%. The decrease in gross margin was due to lower year-over-year sales volumes resulting from the shortage in the supply of semiconductor chips and the increasing sales mix to lower-margin emerging markets. We expect to see continued improvement in revenues from the independent aftermarket business segment in the fourth quarter of this year, but we temper expectations due to the ongoing shortage of semiconductors and the recent spike in LPG prices, which could continue to impact the independent aftermarket business.

Finally, I want to speak to you about liquidity. As we discussed in the past quarter, we have significantly strengthened our balance sheet and liquidity to fund the growth of our heavy-duty OEM business and our other business plans. Our cash position was \$142 million and our debt was \$64 million at the end of the third quarter. Since the successful marketed equity offering in June, we have begun our investment in expanding production capacity of HPDI products and

increased our spending in our HPDI technology for next-generation performance and emission standards, including the application of hydrogen.

We are continuing to progress our efforts to align our debt to our growth profile in a sustainable profile. During the quarter, we exercised our option to convert the final principal balance and remaining interest of the Cartesian convertible debt into common shares. The convertible note of \$10 million has now been fully repaid and converted into common shares.

We're also in the final stages of refinancing our term loan and COVID-19 bridge loan with our banking partner, Export Development Canada, into a long-term credit facility to support funding of our HPDI technologies' commercialization and R&D. We received further waivers from EDC for the principal payments on the loans to the Sixteenth of December 2021 in anticipation of the completion of the new agreement in the fourth quarter of this year. As I've said previously, we're very appreciative of the support and relationship with Export Development Canada bolstering our liquidity to fund our growth of HPDI and all our products and services.

With that, I would like to turn it back to David.

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Thanks, Richard.

To recap, we've made substantial progress on our business plans this year despite the challenges of COVID-19 world we live in and the ongoing supply chain issues we're facing. We remain focused on our key priorities for the last months of the year. I'm confident in our team and we're committed to delivering.

With that, I'd like to turn it back to the Operator for your questions.

Operator

Thank you. The first question comes from Eric Stine with Craig-Hallum. Please go ahead.

Eric Stine speaking

Analyst, Craig-Hallum

Hi, David. Hi, Richard.

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Good morning.

RICHARD J. ORAZIETTI speaking

Chief Financial Officer, Westport Fuel Systems

Hi, Eric.

Eric Stine speaking

Analyst, Craig-Hallum

Good morning. As we think about CWI, and obviously you're working towards wrapping that up and looking at options there. Just curious, it was a subtle change in your commentary in the release that when you were talking about your presence expected in North America, obviously HPDI, but in the past you have mentioned spark-ignited. Is there anything we should necessarily read into that, or anything you're able to share related to CWI beyond the release?

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Yes, glad to touch on that, Eric. I think fundamentally, the thing to be "read into that" is the fact that HPDI is the superior product. We see this playing out, as we mentioned in our opening

comments, in Europe, where there's vehicles that are on offer with spark-ignited engines and there's vehicles on offer with HPDI-equipped engines. The HPDI-equipped engines are preferred by drivers, they're preferred by fleets, and they're taking market share from spark-ignited engines. From that perspective, we feel quite confident in our technological product position.

Having said that, spark-ignited is also a good technology. I don't want to dismiss it entirely. We sell a lot of spark-ignited product around the world. Our way to sell that product in North America has been through CWI historically, but there could be a new path in the future, so watch this space.

Eric Stine speaking

Analyst, Craig-Hallum

Got it. Then just kind of taking that another step, in terms of HPDI, when you think about—I mean, what would be your ideal path or maybe some ideal ways to think about getting into North America, whether it's with your current partner in Europe coming to North America, potentially multiple OEMs. Do you think it's with one or with multiple, or how do you kind of envision that?

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Well, my preferred path to market is with a strong partner, or partners, quickly and successfully. Getting the product right and having a partner that supports it and promotes it is important for us. But fundamentally when I look at in the long run, I expect there'll be a lot of companies around the world offering HPDI because of what it offers to drivers and the environment in combination. I think you'll see that also play out in North America, as well as in Europe and in China.

Eric Stine speaking

Analyst, Craig-Hallum

Okay, we'll stay tuned on that. Maybe last one, just as we think about the overall business, light-duty included, obviously electrification gets a huge amount of focus. But maybe, you just talked about your OEMs, I mean, they do have electrification as part of their path, but they also have gaseous fuel, so maybe your thoughts on how that is playing out even if in the general press it might seem that it's all electric.

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Yes, great question, and I'm happy to talk on that topic at length and probably could go on for way too long, Eric. But just briefly, in the world of transportation today, we have a diversity of solutions in terms of fuels and technologies. When I look to the future, whether it's a year from now or 50 years from now, I expect a diversity of solutions to persist because there are a diversity of applications. What you need for a small car, what you need for a large car, what you need for a dump truck, what you need for a train, what you need for a boat, they're all different, and those differences drive differences in technologies and fuels, and we have an economy in a world that is demanding for transportation solutions.

I expect this diversity of solutions, and so while electrification seems to be the only thing that anyone can talk about in the media and public domain and everything else, we're quietly continuing to grow market share of gaseous-fuelled vehicles; in some cases, in many cases, way out in front of electrification.

You heard today and last week about our announcement with NAFTAL: there are places in the world that can't afford electrification. I would say there are more places that can't afford it than can afford it. On that basis, we see the need and the opportunity to provide our solutions, especially in those markets but not exclusively in those markets, and we'll continue to do that. We think, frankly, and we see evidence that our OEM customers see it the same way. Some of the largest makers of electric vehicles in the marketplace today have their foot also in the

gaseous-fuelled world and find that to be a very important and compelling part of their business and their offerings to their customers.

Eric Stine speaking

Analyst, Craig-Hallum

Okay. Thanks, David.

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Thank you.

Operator

The next question comes from Colin Rusch with Oppenheimer. Please go ahead.

Kristen Owen speaking

Analyst, Oppenheimer & Co. Inc.

Good morning, this is Kristen on for Colin. Thank you for taking the question.

I actually would like to...

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Hi, Kristen.

Kristen Owen speaking

Analyst, Oppenheimer & Co. Inc.

...start with a follow-up to the—good morning, and start with a follow-up to the prior question, just on the diversity of fuels. As you're thinking about the overall hydrogen opportunity, is there an opportunity for you to transition some of that technology into light-duty vehicles?

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Yes, so hydrogen today has actually gotten its start in fuel cell applications in passenger vehicles. As a general picture for hydrogen, is there opportunity in light-duty vehicles? I think there's many people who think, yes, there is. I think you'll see that alongside.

What we've analyzed and demonstrated in the work we've done just this year is that hydrogen, in an internal combustion engine, has an advantage with respect to fuel cells that is quite substantial, and it has to do with the load factor of long-haul, heavy-duty trucking. Where, when you load a propulsion system, whether it's an internal combustion engine or a fuel cell, you get a different efficiency level than if it's unloaded.

That to us really speaks strongly because, basically, the efficiency of an internal combustion engine goes up with load, whereas the efficiency of a fuel cell goes down with load. That basic physics of the two different devices, internal combustion engines and fuel cells, basically points to internal combustion engines being an absolutely fabulous application for heavy-duty, long-haul trucking because they can address the cost issues, it's far more practical.

This is where we're headed. Will there also be hydrogen in light-duty vehicles? For sure there will be, and that could also include internal combustion engines, but now we've got lots of trade-offs to play with respect to efficiency and costs and investments. It'll be interesting to see what the future looks like, but certainly hydrogen and Westport Fuel Systems will be important parts of that future.

Kristen Owen speaking

Analyst, Oppenheimer & Co. Inc.

I appreciate that detail, David. My next question is really just about the Weichai ramp. You touched on it briefly, so I'm wondering if you can provide a little bit more detail on the progress of that ramp, and as a related question, how you're feeling about supply chain readiness as you look to launch that product. Thank you very much.

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Yes, so let me answer the second one first, and that is supply chain readiness. We're ready. From our perspective, the investments we've made to have the capacity available to support the launch in China are in place. Really what we're waiting for is our customer's customer to take the action in the marketplace to launch their product and make it available.

We mentioned that field trials are ongoing, and that's a fact. Certifications have been achieved, that's a fact. We're really at that pivot point and really waiting in anticipation, as I know our investors are too. We're hopeful to have some further news to share, but at this point in time, the status we relayed in our opening comments is what we have to share today.

Fundamentally, the market in China is a big one, as you know, and we're eager to have our marquee product launch there.

Operator

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

Rob Brown speaking

Analyst, Lake Street Capital Markets

Hi, good morning.

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Morning, Rob.

Rob Brown speaking

Analyst, Lake Street Capital Markets

Just following up on the HPDI in Europe that you've talked about. I think you mentioned Q4 should start to get better. What's sort of the picture in terms of pent-up demand and how quickly can that supply chain loosen up, and how do you see that trajectory playing out at this point?

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Yes, thanks for the question, Rob.

Fundamentally, we do see a strong demand. We're getting very positive feedback from the customers that have taken product not just this year but in prior years. The reputation is really building strongly, and people recognize that as the gaseous-fuelled long-haul truck that you want in the marketplace. I think that bodes well for the mid- and long-term future for our relationship with our lead OEM partner in Europe.

In terms of ability to support that ramp, we're in a very good position to do that, as mentioned just a moment ago to Kristen. We have the capacity necessary to respond on the marketplace, so we're eager for that growth.

As we look through the year, in terms of supply chain challenges, I should say, your question, these are really on our customer's side, and so it's difficult for us to see, because each one has its own little story going through the supply chain. We've faced some of those ourselves and those stories are easier to talk about, but as it pertains to our customer, it is difficult for us to see. We do expect these to be resolved, step-by-step, one-by-one, in time, and therefore that the demand will come through in terms of from the customer to our customer and then to our EDI and our delivery to our customers.

Rob Brown speaking

Analyst, Lake Street Capital Markets

Okay, great, thank you.

Then on the light-duty side, you talked about some of the commodity fuel price dynamics going on. Has that resolved yet in Q4? Are you seeing that business come back yet in Q4, or is it still too early to tell? I guess following that, what's sort of the ins and outs on how next year develops; is it dependent on fuel price stabilizing, or do you have some visibility on next year yet?

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Yes, thanks for the question.

I think it is a really important dynamic that is still playing out in the marketplace. It hasn't been settled and we haven't re-stabilized. I mentioned in my opening comments that commodity prices on gas and petroleum are doubled over just the last year. We're now getting back into the territory that it's kind of expensive for the energy that you buy. How that plays out at the pumps, in different countries and what the differentials in prices are between petrol and natural

gas, or petrol and LPG, or diesel and natural gas, market-by-market, does matter. Frankly, more than anything else, the changing prices causes people to pause a little bit in their purchase decisions.

We're hearing some of that and we're seeing some of that in our forward-looking order books and so forth, so that is a concern to us and we'd like to see the prices stabilize. We're happy if it stabilizes at a high level, because I think that'll cause us all to conserve energy, but we need the price differential between gaseous fuels and liquid fuels that has persisted for a long period of time, and we expect it to persist for a long period of time going forward, in markets like Europe, India, and China.

Rob Brown speaking

Analyst, Lake Street Capital Markets

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

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Thanks, Rob.

Operator

The next question comes from Bill Peterson with JPMorgan. Please go ahead.

Bill Peterson speaking

Analyst, JPMorgan

Yes. Hi, good morning, and thanks for taking the questions.

First one, coming back to the hydrogen application. I guess, you mentioned it a little bit, but what additional areas do you think are remaining to be solved? I guess, can you give us a better feel for what additional type of customers that would be on, the one you've been working with, are interested in the technology? I guess, conceptually, what could be the timing of commercialization?

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Yes, so great question, and great to hear you this morning, Bill.

Let me dial back to the beginning of this year, when, I would argue, almost no one was talking about hydrogen internal combustion engines. It's not like the fuel cell that's been invented in 1966 and we've been talking about it since. This actually is something new, and I think the new thing really is us, is Westport Fuel Systems with the demonstration of how effective HPDI is for hydrogen in an internal combustion engine.

I'll tell you, in my experience, my career, basically, hydrogen internal combustion engines has always been dismissed because it's always been tried in a spark-ignited engine, basically a gasoline or a petrol engine, the spark plug and a throttle. This is a very poor way to use hydrogen internal combustion engine, and we've demonstrated this this year.

I tell that kind of setup because, fundamentally, as we go and work with customers, each and every one of them has to be educated and informed about what we've done with HPDI and hydrogen in an internal combustion engine because it is counter to their experience with spark plugs, throttle valves, and in SI internal combustion engines. We have to educate, and we've been doing that. I'll tell you that the data is so compelling, that it isn't a long journey to do, but we've been dealing with customers around the world and the reception is quite strong, as you can see from the already announced projects that we have with Scania, AVL, TUPY, etc.

From my perspective, this is going well. What remains to be done is I'll call the normal development work of developing an engine for a unique fuel that hasn't been done before. Our technology in HPDI is ready, but the system needs to be developed, and that's a lot of work. Meanwhile, of course, I'll tell you that the companies that make the vehicles, let's say, aren't in a big hurry because there isn't the infrastructure. We have to do this, and we've seen this play

out before with natural gas as an example. You need some market coordination, if you will, between the build-out of the infrastructure and the build-out of the products themselves.

We are doing these projects. The technology has already demonstrated its value and its potential. Now we need to do the production, development, validation, and bring it to market. But as you noticed, I haven't had any announcements yet of a customer saying we're bringing HPDI to the market with hydrogen, but I do expect those will come.

Bill Peterson speaking

Analyst, JPMorgan

Yes, thanks for the colour there.

I guess, coming back to the conventional HPDI, and particularly in China, you said you're waiting on your customers' customers. I mean, is this related to—for example, I think there was even, let's say, a build-up of trucks earlier this summer. Is this more of a backlog issue, or what else is waiting there? Is there more, let's say, commercial negotiations going on at your side? I'm just trying to get a better feel for at least when this ramp could occur. I realize you're not willing to kind of give us precise timing on when this could happen, but just what needs to get cleared before the ramp can happen?

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Yes, I think, fundamentally, it's for our customers' customers, so the vehicle OEMs in China, to choose their timing for when they went to launch with, perhaps, other things they've got going on. We mentioned in our opening comments that, right now, like it is in the rest of world, we have some rising prices of natural gas, so you could imagine that makes a bit of a headwind for launching a new product that runs on natural gas.

We're still convinced that there's a long-term and an important place for HPDI in the market in China, and that we have the right partner in Weichai Power, and that they have the right

customers in the OEMs that they are working with. But in terms of an actual launch date yet, we wait for our customers' customers to pick that date and make announcements.

Bill Peterson speaking

Analyst, JPMorgan

Okay, thanks for the clarification.

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Thanks, Bill.

Operator

The next question comes from Amit Dayal with H.C. Wainwright. Please go ahead.

Amit Dayal speaking

Analyst, H.C. Wainwright

Thank you. Good morning, everyone.

Richard, you mentioned capacity expansion for HPDI potentially taking place. Can you give us some colour on what levels we are going to and where we are right now in terms of capacity for HPDI production?

RICHARD J. ORAZIETTI speaking
Chief Financial Officer, Westport Fuel Systems

Hi, Amit. Yes, no, it depends on the component. Some are going into sets of 20,000 to 50,000, so we're trying to build it up according to our demand forecast. Sometimes these thresholds are kind of all or nothing, where you just buy a machine and you have a lot of capacity. But we're working between call it 30,000 to 50,000 and then looking beyond at 100,000 systems cleared is kind of the first step in the initial program.

Amit Dayal speaking
Analyst, H.C. Wainwright

Okay, thank you for that.

Then just one more for me. Are you guys potentially implementing any price increases with petrol in this environment?

DAVID M. JOHNSON speaking
Chief Executive Officer, Westport Fuel Systems

Yes, great question, Amit.

RICHARD J. ORAZIETTI speaking
Chief Financial Officer, Westport Fuel Systems

Yes, (multiple speakers 42:08). Go ahead, David.

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Yes, sorry. Thanks, Richard.

I've told my team that it feels to me like it's really clear we're living in inflationary times. Part of that is costs go up, and part of that is prices have to go up. This is, let's say, daily work of our teams who work with our customers to find the right time and the right amount to change prices as necessary, and to pass those on to the end customers. I do think we're seeing this throughout the world and in all markets, and we have to do our part of that just to keep up with the commodity price increases that we've seen, whether it's steel or energy or other commodities, copper for example. All of them do affect us, and of course microchips are in there too.

All of these cost increases need to be borne by the market in the end of the equation, and so that's part of our daily activities.

Amit Dayal speaking

Analyst, H.C. Wainwright

Thank you, David. That's all I have, appreciate it.

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Thanks, Amit.

Operator

This concludes the question-and-answer session. I would like to turn the conference back over to David Johnson for any closing remarks.

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Thank you very much, and thanks, everyone, for joining in our call today. We look forward to providing you further updates in the future, and certainly to seeing those of you who attend the upcoming Craig-Hallum Conference.

Thank you very much. Have a good day.

Operator

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