

Westport Fuel Systems Inc.**Q3 2023 Conference Call**

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PRESENTATION

Operator

Good morning. My name is Sintha (phon), and I will be your conference Operator today. At this time, I would like to welcome everyone to the Westport Fuel Systems Q3 2023 Conference Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, please press the *, then 2. Thank you.

Ms. Ashley Nuell, you may begin your conference.

Ashley Nuell — Senior Director, Investor Relations, Westport Fuel Systems Inc.

Thank you. Good morning, everyone. Welcome to Westport Fuel Systems' third quarter conference call for the 2023 fiscal year.

This call is being held to coincide with the press release containing Westport's financial results that was issued yesterday.

On today's call, speaking on behalf of Westport, is Interim Chief Executive Officer and Director, Tony Guglielmin; and Chief Financial Officer, Bill Larkin.

Attendance on this call is open to the public, but questions will be restricted to the investment community.

You are reminded certain statements made on this call and our responses to certain questions may constitute forward-looking statements within the meaning of the US and applicable Canadian securities laws. And as such, forward-looking statements are made based on our current expectations and involve certain risks and uncertainties.

With that, I'll turn the call over to you, Tony.

Tony Guglielmin — Interim Chief Executive Officer and Director, Westport Fuel Systems Inc.

Great. Thanks, Ashley, and good day, everyone.

I'm very pleased to join you on my first call as Interim CEO of Westport.

Today, I'll provide an update on our strategic objectives before I turn the call over to Bill to walk us through the Q3 results. We also intend to keep our prepared remarks today brief so we can get to the Q&A.

I want to start off by hitting some of the key highlights and top-line numbers for the quarter.

A key to these is our excitement around our HPDI joint venture with Volvo to accelerate the commercialization and adoption of Westport's HPDI fuel system technology for long-haul and off-road applications, which I'll provide an update on shortly.

Touching briefly on our financials, our third quarter results saw improvements in many of our key metrics.

Westport delivered revenue of \$77.4 million in the quarter, up over \$6 million from the same quarter last year.

In addition, we continued to deliver improved gross margins, both in dollar terms and as a percentage of revenue.

We also improved our adjusted EBITDA to negative \$3 million for the quarter from negative \$4.5 million for the same period in 2022.

I'll leave it there and let Bill elaborate in a moment on more detail on the financials.

In terms of our strategic priorities, we remain heavily committed to these priorities, including driving sustainable growth in our existing markets, unlocking new and emerging markets, driving operational excellence, and extracting efficiencies through prudent capital management.

Now, near term, the immediate priority is to finalize the HPDI joint venture with Volvo, and to elevate the financial performance across all our businesses.

I also want to walk you through a couple of other recent progresses against these priorities.

First, we entered new markets with our H2 HPDI fuel system solution with a proof of concept project with a leading global provider of locomotives and related equipment for the freight and transit rail industries. Now this represents Westport's first application of the H2 HPDI system for the locomotive sector.

In our view, the hard to abate medium and heavy duty, as well as high horsepower sectors, are where HPDI creates significant value. We believe this is an affordable path to decarbonize the rail sector without compromising performance or efficiency.

Now, this two-year project will begin immediately and is fully funded by the OEM.

Second, consistent with our objective of improving profitability and strengthening our balance sheet, in September, we reorganized our business in India, including our partnership in India, by reducing our stake in our joint venture, Minda Westport Technologies Limited, from 50 percent to 24 percent. We expect to close this transaction by the end of Q1 2024.

In addition, we are amending our joint venture agreement to include hydrogen components in addition to CNG, LNG, and LPG components and kits. Importantly, though, the agreement will exclude any HPDI opportunities.

Now, while this amended agreement will result in rationalization of local costs, we will maintain participation through the joint venture in a fast-growing market in India and, at the same time, provide access to low-cost manufacturing footprint through the joint venture.

Now Bill will provide additional details on the financial impact of this transaction in a minute.

Now, moving on to an update on the progress on the joint venture with Volvo.

Now I personally had the opportunity over the last month, since stepping into this role, to meet with Volvo and Westport teams and can tell you that we are in a great place to bring the transaction to successful conclusion.

The teams have made great progress on all items, and I can say now with confidence we plan to have the definitive agreement signed by the end of January of 2024 and have the joint venture closed and operational in the second quarter of next year.

Now Volvo and Westport have collaborated for over 15 years and shared the vision of creating sustainable transport solutions. Volvo trucks have been on the road for over five years utilizing our LNG HPDI system, and we look forward to a long and profitable future with the Volvo team.

Now with that, I'll hand it over to Bill to walk you through our financial results.

Bill Larkin — Chief Financial Officer, Westport Fuel Systems Inc.

Good morning. Thank you, Tony.

Just an overview on our financial highlights of the third quarter and the third quarter of 2023, we generated \$77.4 million in revenue. That's a 9 percent increase compared to \$71.2 million in the prior-year period.

This increase was primarily driven by our core business, with increased sales volumes in our delayed OEM, electronics, fuel storage businesses, and also increased revenues from the heavy-duty OEM

business, which were partially offset by lower customer sales in the aftermarket and light-duty OEM businesses.

Gross margin increased to \$13.2 million or 17 percent of revenue in the quarter. This is up from \$11.3 million or 16 percent of revenue in the third quarter of 2022.

This improvement was mainly due to higher sales volumes across multiple businesses that increased gross margin in our heavy-duty OEM business driven by higher engineering services revenue.

However, our gross margin was negatively impacted from higher production costs that continue to impact our business coming from global supply chain challenges and inflation, specifically in logistics and labour costs. We're continuously working with our customers to pass through the impacts of cost increases, where appropriate.

On the next slide, in the third quarter of 2023, adjusted EBITDA was a loss of \$3 million. This is an improvement compared to a loss of \$4.5 million in the third quarter of last year.

The improvements in revenue and gross margin drove the positive improvements in adjusted EBITDA, which were partially offset by higher selling, general, and administrative expenses from increased trade show activity, during which we highlighted our HPDI fuel system technology in North America and Asia.

We recorded higher service costs and increased consulting and legal fees related to the ongoing project, including finalizing our HPDI joint venture with Volvo. We expect to see the higher consulting and legal fees trend continue through the fourth quarter as we move forward with setting up the JV with Volvo.

On the next slide, our OEM revenue for the third quarter was up 20 percent to \$52.9 million as compared to \$44.1 million in the prior-year period.

As a reminder, Q3 tends to be our seasonally slow quarter due to the annual summer production shutdown in Europe. However, despite the seasonally slow quarter, and also as we expect and discussed last quarter, our HPDI system volume in the third quarter significantly increased compared to Q2 of '23. And this was the result of Volvo's release of more powerful product offerings with an extended range.

We expect to see volumes continue to increase in the fourth quarter.

We also delivered higher sales volumes in delayed OEM business, increased sales volumes in electronic and fuel storage businesses, and a higher engineering services revenue in the heavy-duty OEM business.

Offsetting these increases were lower sales to customers in India in the light-duty OEM business.

Gross margin in our OEM business expanded in the quarter, increasing to \$7.8 million, or 15 percent of revenue. This was an increase of \$4.7 million, or 11 percent of revenue in the third quarter of last year.

The gross margin increase was largely correlated with the revenue improvements, but partially offset by higher production input costs.

We expect to see gross margin improvement going forward as we achieve scale for our HPDI fuel system.

As LNG fuel prices continue to trend positively against diesel and Volvo's updated HPDI engine becomes more available, we expect volumes to continue to improve, with Q4 being a full quarter with higher volumes.

Moving to the LPG side of our business. Our global OEM customer for Euro 6 and Euro 7 LPG systems has adjusted their start date for their Euro 6 program, just moving the initial delivery dates from November 23 to January 2024.

As a reminder, this program includes both Euro 6 and Euro 7 deliveries and expected to generate approximately €255 million in revenue through 2028.

Affordability drives the buying decisions in the LPG market. Currently, on average, the cost of LPG in Europe is less than half the cost of petrol or diesel, and our products enable customers to take advantage of these price differentials.

So next slide, our independent aftermarket revenue for the third quarter was \$24.5 million, down \$2.6 million as compared to \$27.1 million in the third quarter of last year. Lower sales volumes in African and European markets drove the decline, partially offset by higher sales volume in South America.

In line with the decrease in revenue, our gross margin declined to \$5.4 million, or 22 percent of revenue in the third quarter as compared to \$6.6 million, or 24 percent of revenue in the prior-year period.

Margins were negatively impacted by change in sales mix and inflation in South America.

Looking ahead, supportive LPG pricing continues to boost demand in Europe, which is an important area of growth for our company in the years ahead.

On the next slide, regarding liquidity, our cash and cash equivalents decreased \$8.3 million during the quarter to \$44 million. Cash used during the quarter was primarily related to debt servicing payments and purchases of equipment.

In the third quarter of '23, net cash provided by operating activities was \$1.1 million. This was a significant improvement from net cash used of \$8.6 million in the third quarter of last year.

The improvement in cash provided by operating activities was primarily driven by the change in working capital, specifically in inventory, accounts receivable, and prepaid expenses.

As we previously discussed, we built up inventory to manage against supply chain risk, as well as shortages of raw materials and other components. We've had some success in reducing inventories during

the quarter, and we continue to take action to monetize and optimize inventory levels to further free up cash. This would be a net positive for our balance sheet going forward.

Looking forward, we have multiple projects and initiatives either announced or underway that will have a positive impact on our liquidity.

First, our HPDI JV with Volvo is an inflection point for Westport financially and HPDI commercially. Volvo payments for their 45 percent share of the joint venture include the initial \$28 million and an earn-out of up to \$45 million, which is a clear signal of their commitments to the future growth of HPDI. And that also helps to shore up our balance sheets.

The JV's focus on driving global adoption of HPDI in the long term, improving efficiencies at scale, while in the short term we have a partner to share in the required investments, including working capital and capital investments. Westport will be receiving the initial \$28 million following the closing of the JV.

Second, as Tony highlighted, we have reorganized our presence in India to streamline the business consistent with our objective of improving profitability and strengthening our balance sheets.

As part of the India transaction, upon closing we expect to receive approximately \$3 million from the sale. Also, we anticipate this reorganization of our presence in India will improve our cash flows going forward.

Moving forward, we will continue to be prudent in our liquidity management and multiple steps are being taken to do so.

Non-dilutive financing alternatives remain an option as we look to solidify our balance sheets. We continue to do what is necessary to ensure we are adequately and fully capitalized.

Based on the work we have done against some of the initiatives I've mentioned here, I expect our cash balance at the end of 2023 to be above \$50 million.

With that, thank you. I'll turn it back over to Tony.

Tony Guglielmin

Great. Thanks, Bill.

Just in closing then, our products are making a material impact on the decarbonization of the transport industry, and the magnitude of this impact will only grow as we get these products into the hands of more customers.

Now while we've made significant progress against our key strategic priorities in the quarter, we recognize that we do have more work ahead of us.

Now before we open the call to Q&A, I just wanted to provide a brief update on our CEO search transition.

Getting the right person for the role is obviously a priority for the board, but this does take some time. The status is ongoing, and we will have additional details for you as soon as we can. I want to stress, though, that through this transition as Interim CEO, I'm fully committed to executing against our outlying priorities.

And with that, I'll turn the call over to the Operator to open the call for your questions.

Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session.

Should you have a question, please press the *, followed by the 1 on your touch-tone phone.

Our first question comes from the line of Chris Dendrinis from RBC Capital Markets. Please go ahead. Your line is open.

Chris Dendrin — RBC Capital Markets

Yeah. Good morning. Thank you.

Tony Guglielmin

Good morning.

Chris Dendrin

I guess I wanted to begin with the locomotive opportunity, hopefully just get some more colour around the opportunity here. How long have you been working on this agreement with this company? What's been the messaging from the OEM on their thought process around hydrogen and HPDI?

And then I kind of recognize that it's still very early in this process, but can you maybe discuss just any kind of unique design challenges that you might face with the adoption of HPDI for the locomotive setting? Thank you.

Tony Guglielmin

Great, Chris. It's Tony here. Let me take a quick stab at the big picture, and I'll let Bill jump in perhaps on some more details.

Just from a high-level point of view, I think what's very exciting for us, and it's actually part, I would say, of a broader theme over the last year or so, which is the opportunity for hydrogen in HPDI as a way to decarbonize without having to change the overall, shall we say, the layout of the engines and so forth. And that's an important point because for us, this is really an opportunity to retrofit the existing locomotive fleets.

Some of the numbers we've seen, there's probably about over 100,000 installed base locomotives, about over 30,000 of those in North America. And there's only a few OEMs that do this.

So what's unique here and what this OEM is looking at is effectively retrofitting an existing locomotive, which will have some challenges. And fundamentally, that's really what the project's about over the next couple years is just to go through that process.

So it's a very exciting opportunity as part of the transition to cleaner energy, which the locomotives, these are very long-life assets, not dissimilar to some of the on-highway truck markets. And this is where the hydrogen element of HPDI, I think, can be quite a unique proposition.

So we're quite excited about the big picture opportunity, but this is a two-year program and we'll both learn a lot about this going forward. So that's kind of the big picture.

I don't know, Bill, if you wanted to add any colour on the specifics around how long this is going on with the customer just to answer some of Chris's other questions, but I'll leave it there at the high level, Chris.

Bill Larkin

Yeah, no, we've been looking at the locomotive market for many, many years, and we're excited to partner on this process. We've had typically these are fairly lengthy conversations before getting to this point. And we're excited about the opportunity.

Just to add a little bit more, Tony mentioned this isn't going to be a new build. This will be what I expect to be retrofits. And typically, these engines they get overhauled about every 14,000 to 15,000 hours, so that's about every seven-ish years. And so that's the opportune time to retrofit and integrate our technology on the engine platform. So there's a natural cycle there to do the installations.

Actually, it's from a technical standpoint we're just dealing with bigger injectors, more fuel flow, so the packaging is not going to be that challenging. As a matter of fact, it should be a little bit easier because we're going to have a larger packaging to put our technology in.

And then of course, ultimately you're going to store the fuel probably in a tender car behind the locomotive. So from a fueling standpoint, I think it's less of a challenge.

So we're—as I mentioning, this is going to be a two-year project and it could turn into a significant opportunity.

Chris Dendrin

Great. Yeah. Thank you for all that colour.

I guess as my follow-up and sticking with the HPDI here, you mentioned volumes with Volvo were maybe picking up some. I know previously there were some dynamics around a changeover to a new model with that Volvo truck and that was kind of weighing on things maybe a little bit near term.

Can you maybe just provide a bit more colour on sort of what the messaging from Volvo has been as of late and sort of expectations going forward if there's been any kind of changes in the past couple months? Thanks.

Bill Larkin

So I can—look, I think Volvo's committed to HPDI. They're very excited about HPDI. As a matter of fact, there was a podcast one of their technical leaders did. And again, they mentioned HPDI in their technical podcast, and we're really excited and believe in HPDI technology. So one of the biggest takeaways is just having that vote of confidence in our technology in the right solution for decarbonizing in the transportation industry.

So as we mentioned, as we get kind of the switchover, we did expect a lower decline in our unit volumes in the second quarter. We started seeing the ramp-up in the third quarter, still kind of a partial quarter due to the summer shutdown.

And so we expect that to continue to increase in the fourth quarter, even with probably the slower holidays slower sales during the last couple weeks of the year.

Chris Dendrin

Got it.

Bill Larkin

We, I think, are really excited and motivated to continue to increase and drive demand for this product.

Chris Dendrin

Okay. Great. Thank you very much.

Operator

Thank you. Our next question comes from Colin Rusch from Oppenheimer.

Please go ahead. Your line is open.

Colin Rusch — Oppenheimer

Thanks so much, guys. Can you give us an update on where things are with Weichai and the HPDI deliveries that you've had in queue here for a little while? And how the Volvo relationship may change dynamics with those guys?

Bill Larkin

First I'll tackle the second one. The dynamics (unintelligible) I don't think it's going to change. That activity won't go into the JV. That'll be part of the JV. So the overall relationship won't change.

Regarding Weichai, they continue to move forward with their development activities around integrating HPDI on certain engine platforms, as well as certain chassis applications as of right now.

We continue to support these initiatives and we're, of course, providing pricing information, but as of right now I don't have, we don't have anything else to add other than we continue to support their initiatives and we're there to support Weichai and supply the HPDI systems and components when they're ready to launch.

Colin Rusch

Super helpful. Thanks.

And the rail application is a nice win. And I'm just curious about the maturity of any other customer conversations around stationary or marine applications. Obviously, there's going to be a role for hydrogen in a variety of areas of the economy, and just want to get a sense of how robust the various applications can be for the technology.

Bill Larkin

I know there's—for the larger applications, this HPDI is ideal for those larger applications. We have had some conversations, but nothing substantive that leads to some sort of proof of concept-type work. Typically, just to even get to the start line, they are very long years conversations with the engine manufacturers, the end users. There's a lot of education that goes into it in terms of the overall system architecture, technology, and also benefits.

Regulation also helps as well, kind of drives interest in HPDI technology. As these larger engine applications, displacements, there's a huge push to decarbonize, especially in the marine, there's been a big push, especially in the ports, and minimize or essentially eliminate the use of bunker fuel just because of how—the pollution related to that.

So there's always conversations going on, there's a lot of interest, but these are very, very long conversations.

Tony Guglielmin

Yeah. If I could jump in. It's Tony here. But, Bill and Colin, just a quick two seconds on the marine market because it's a really interesting market.

And Bill touched on, obviously, they're one of the biggest polluters out there, particularly in the ocean-going and bunker fuel. What's interesting, of course, in marine markets, there's sectors within so many subsectors.

And as you kind of start at the I'll say the smaller to midsize, there's a lot of the, suffice it to say, some of the engine manufacturers in marine are some names that also were engine manufacturers in some of the heavy-duty applications. So meaning there's a fair—there starts to be some overlap at the smaller end of the space, so where HPDI can make a fairly significant difference.

So Bill's absolutely correct, early stage, but I think there's some interesting opportunities where there's potentially some OEMs who we know already or get to know particularly on the not so much on the ocean-going side at this point, but perhaps on the smaller end of the marine scale.

So I think some very interesting opportunities there, but early days.

Colin Rusch

Thanks so much, guys.

Operator

Thank you. Our next question comes from Eric Stine from Craig-Hallam.

Please go ahead. Your line is open.

Eric Stine — Craig-Hallam

Good morning, everyone.

Tony Guglielmin

Morning, Eric.

Bill Larkin

Good morning.

Eric Stine

Hey. So I'm just curious, so this process with Volvo and working towards finalization of the joint venture, I guess part one of the question is anything you can share how the view of the opportunity has changed as you've gone through the process? And then really interested in how it accelerates the business beyond Volvo. I know that it's become more commonplace for OEMs to collaborate together.

And so just curious your thoughts on what this means more broadly for HPDI adoption.

Tony Guglielmin

Eric, it's Tony here. Go ahead. I'll let Bill go first and then I'll pile on.

So, sorry, Bill, go ahead.

Bill Larkin

Yeah. I think and so I mentioned, this is about getting up to scale and scaling the technologies and pulling out costs of a complete supply chain to make this technology even more and more affordable and attractive compared to alternative or competing technologies like fuel cells or electrification.

That's where the huge benefit is. And because when you look at the end users, the operators they know their cost per mile. They're very economic driven. So they're looking at what is the upfront cost, what's the fuel price differential, then ultimately what's the payback period for converting or buying a truck with HPDI system on.

And so it behooves us to scale, reduce costs, which ultimately reduce the end cost to the customer, which will make it more attractive for them. I think that's what—

Tony Guglielmin

Yeah. Bill's tone here (phon), I'm just going to pile on. That's absolutely spot-on. I mean, volume is what's going to drive this.

The other part, the other dimension to this, if I may just jump in, it was beyond Volvo. We had the opportunity this summer as we were, I say we, the board and management, had an opportunity to spend some time with Volvo back at one of our meetings in Europe. And I'm just speaking from a personal point of view here as I was actually very impressed with Volvo's vision for this.

They, to your point about there's a changing dynamic in how OEMs are working with each other, and Volvo has a number of other partnerships. Europe, there's many of these where, shall we say parties that you wouldn't normally expect to be doing business together are. And Volvo at the most senior levels indicated to us that unequivocally their objectives is to make this joint venture a successful business, which would by definition they're looking at the opportunity well beyond their own needs for their internal products.

So I can say with great confidence that Volvo's on the same page here and want to make this a global, make this joint venture a global leader in HPDI. So there'll be other OEMs, obviously, that we intend to take it to and there's a number of them that we're talking to already who looked at this product.

So no hesitation in saying this is going to be a well beyond just Volvo, but as Bill says, it's really at the end of the day the more product that we can move, the better pricing that all of the OEMs and Volvo in particular can enjoy.

So spot-on. This is a different model, but one that we're well aligned with Volvo on.

Eric Stine

Okay. Got it. That's helpful.

And then maybe just specific to Volvo, I mean, good to hear the colour and, thanks for it, on the fact that you really just got a partial impact on the volume side from this new engine launch with HPDI and growth going forward.

I mean, obviously, with the joint venture you're now going to have a much more motivated partner. Can you update on maybe Volvo's geographic expansion plans? I know Canada was a spot that potentially might be a little easier to get into just from a regulatory perspective, but maybe how Volvo's thinking about that as well.

Bill Larkin

I can tackle it. I know there are as we go through and we're working on the business plan for the JV and this is a long-term business plan and in there we're looking at what are the opportunities, what are the various markets. Yes, we're predominantly in Europe today. There's been a few trucks that have been imported into Canada that are running around, but we are continuing to evaluate all the markets globally and aware of the opportunity, and together with our partner we will bake those into our business plan. So yes, we are looking at every opportunity and making that assessment.

Clearly, there are going to be opportunities in North America, but we're going to have to make an investment in the technology to bring that vehicle, to bring a application to North America, and that's something that we'll have to work together with our partner and ultimately allocate capital for them.

And that's one. There's a lot of other opportunities out there that we will continue to evaluate with our partner, but again, as you mentioned, Eric, we've got to motivate a partner now to make this as successful as possible.

Eric Stine

Okay. That's great.

I'll take the rest offline. Thanks.

Bill Larkin

Thank you.

Tony Guglielmin

Thank you.

Operator

Thank you. Our next question comes from Sameer Joshi from H.C. Wainwright.

Please go ahead. Your line is open.

Sameer Joshi — H.C. Wainwright

Yeah. Good morning, Tony, Bill.

Tony Guglielmin

Hey, Sameer.

Sameer Joshi

Hey. In terms of improving margins on the OEM business, can you give a little bit more insight into how the discussions on price increases are going. And also what if prices are increased, when should we see the impact of that on the gross margins going forward?

Bill Larkin

Okay. It was a little bit hard to hear, but so improving margins in the OEM business, a big chunk of that is just mix of where our revenues are generated. That's one. As I mentioned with the heavy-duty OEM, we did have quite a bit of the engineering services revenue which helps improve margin.

We are looking through our supply chain to, one, try to reduce costs and try to mitigate any potential future cost increases, but also having conversations with our customers about price increases. So mix does have a big impact on that.

Also, organizationally and operationally, we're looking internally at our operations and we are taking steps to reduce our cost structure, primarily in Europe, where a lot of our manufacturing activities are.

And we're also looking at where essentially our manufacturing footprint, and we've done some consolidation of smaller operations into our existing facility. So we're tackling it from multiple angles from the supply chain to internal production in delivering the product and then also pricing.

So that's an ongoing effort.

Tony Guglielmin

Yeah. Thanks, Bill. It's Tony and, Sameer, I just want to, I'll just add a little colour too.

Certainly, over the last 12, 18 months, supply chain's been an issue, cost price has been an issue. Some of those supply chain pressures, some of them continue to exist, but that's starting to alleviate somewhat.

I think to the other point that I'd want to make and I hit it, kind of commented in my highlights, the two big priorities for the Company in the near term, one of course is the Volvo, getting the Volvo JV closed, as I mentioned. And the other one is improving the financial performance and margins.

There's a discipline needed. While we're certainly seeing good revenue growth, we're not going to be—we're not and never were chasing revenue at the expense of margin. But Bill, I got to say, Bill and his team have done a great job of instilling and changing a bit the discipline around pricing in terms of

ensuring that we're working with our customers, but ensuring that we can push through as much of the price pressure we've seen.

And that really, frankly, has had as much the biggest impact, including mix, but also the biggest impact in the last year has been on having some hard conversations with customers. And I can say that we're starting to see the benefit and we'll continue to do so.

But having said that, there has been a bit of an alleviation on the supply chain. And as Bill said, we're taking some—have taken steps and will take steps to further improve our manufacturing footprint and efficiency, which will help gross margin as well.

Sameer Joshi

Thanks. Thanks for that colour, Tony.

Just staying on the cost front, I think maybe I missed it, but was there any more details given on what level of savings to expect from the India JV sort of reduced responsibilities in terms of dollars?

And when should we see that impact? By 2Q of next year, 3Q of next year, impact or benefit, I should say?

Bill Larkin

Well, I'll take that and I can let you chime in, Tony is, no, we haven't—we didn't put out specific dollar amounts. We've had a long relationship with our partner and looking at the Indian market is a very attractive market. We've got a great partner there. And we looked at how do we address this market to take advantage of the growth opportunity.

And hence, we did the restructuring and our relationship with Minda to take advantage of that and the leverage, which will help improve our cash flows. And that's essentially going to be, I think we'll start seeing some benefit in Q4, but we'll start seeing the true benefit next year in that new relationship.

Sameer Joshi

Got it. And just one last one maybe. I know the delay from November to January '24 is not a significant delay, but is there any reason for that?

And what is the level of confidence that in January the LPG systems for Euro 6 will start production?

Bill Larkin

Yeah. This, it doesn't surprise me. It happens all the time. It is a two-month lag. It's just trying to get productions up and running, trying to do all the validation. It just takes time to get through that process.

So I don't have any concerns here with this short delay and have lots of confidence that we'll start delivering the components to our OEM partner early next year.

Sameer Joshi

Got it. Thanks. Thanks, Bill.

That's all for me. Good luck. Excellent. Thank you.

Operator

Our next question comes from Rob Frank from Lake Street Capital Markets.

Please go ahead. Your line is open.

Rob Brown — Lake Street Capital Markets

Good morning.

Tony Guglielmin

Morning, Rob.

Bill Larkin

Good morning.

Rob Brown

Again, on the heavy-duty OEM business, you've got the model changeover. You've got kind of the improved fueling price spread environment. I just want to get a sense of how you see that maybe in terms of market share gains or penetration gains into the next year how do you see that kind of turning around? Any sense on the direction there?

Bill Larkin

I think there's a couple of market drivers. One, we've talked about the economics, but also the other side of the equation is regulation and trying to get to kind of a net-zero carbon. We're seeing broader use of biogas and in addition to just LNG. And I think that'll drive a lot of adoption where it's getting more and more broader market share and adoption of HPDI and getting the traction of more markets in Europe, so.

And having Volvo as a partner leveraging their marketing and sales machine will help drive that, but also regulation is our friend as well in today's environment in driving that adoption. And from our side from a cost perspective, it's in our best interest to continue to pull costs out of the system to make the overall upfront investments more attractive for these owners and operators.

So it's going to be really from a couple different angles that will have, really, a positive benefit on APDI adoption.

Rob Brown

Okay. Great. Thank you.

And just back to the Volvo kind of JV closing and timing, just want to clarify, as that comes through, you get the cash from them and then additional cash through earn-out activity.

And are there cash contributions that you need to make ultimately to that JV? Or will this be a kind of a net cash positive to Westport?

Bill Larkin

So you're right. So we'll get the upfront \$28 million upon closing and when we launch the JV and then the earn-out, the \$45 million, will be based on achieving certain milestones.

And we're actually going through that process right now and standing up the JV. We're working with our partner on the business plan and doing a really detailed roll-up budget for '24 and beyond. And that business plan will determine how much cash will be needed in the JV. And the partners will contribute their portion on a pro rata basis.

So we're going through that process right now. So I would expect there would be some level of cash contribution both from both us and Volvo to make sure the JV is fully funded.

Tony Guglielmin

Yeah. Rob, it's Tony. Yeah. I'll just pile on to say, absolutely. I appreciate a bit of patience. Certainly, we talked about getting through the signing and definitive agreements and closing. And, Bill, spot-on. One of the mutual deliverables is a detailed business plan, which we presented a first draft. So we'll have more. I think it's safe to say that we'll have a bit more colour at year-end and going into early next year on the business plan, maybe a bit more colour on the burn.

But, yeah, there'll be some mutual investment as we stand this up and get it up and running, but it is expected. And based on the business plan, it won't be a protracted cash investment in terms of the timing. We expect this thing to quickly move to cash flow breakeven, but we'll have more colour on that in the new year.

Rob Brown

Okay. Thank you. I'll turn it over.

Operator

Thank you. The last question comes from Bill Peterson from JP Morgan.

Please go ahead. Your line is open.

Bill Peterson — JP Morgan

Yeah. Hi. Good morning, and thanks for taking the questions.

You discussed the cash, I guess, exiting the year around \$50 million. I guess, within that, how should we think about the drivers, especially including working capital here and into the fourth quarter?

And I guess, you mentioned some of the cash things in the prior question. How should we think about working capital, or use of cash at least at the start of the year before the JV is consummated?

Bill Larkin

Yeah. I can't comment right now on next year's, but I can talk about through the end of the year and mention this. We have multiple initiatives in place to try to convert our working capital into cash, and so continue to bring down our inventory levels.

We are seeing some easing in the supply chain and looking at our purchasing and trying to bring down the inventory levels and convert that to cash.

Same thing with receivables. We're trying to shorten the cash conversion on that and drive down our receivables and drive down our DSOs. We look at that very closely.

Also, as I mentioned, we are looking at some debt financing opportunities over in Europe. And we have a couple of term sheets, actually, multiple term sheets in hand that we are working through that process that will provide additional debt funding to support the operations.

Bill Peterson

Okay. Thanks for that. And I guess just coming back to the JV, so I was wondering if you can provide more information, I guess, as to what remains to be ironed out here in the next few months.

And I presume these are straightforward based on your commentary and confidence that it's going to be signed early next year. But I guess how should we think about a Plan B if for whatever reason this doesn't work out and along those lines, like what would then be the best means to commercialize and scale HPDI?

I mean, are there other OEMs that can—that would maybe be interested in stepping in maybe even similar to what, I guess, this rail OEM did in terms of funding the efforts?

Tony Guglielmin

So it's Tony here. I'm not going to take the bait on what happens if it doesn't close, per se, but I will say that, and I say it with confidence, I don't think there's any concern that we're not going to get to closing.

The signing of definitive agreements, which is really we'll call it a signing and closing, is really a two-step. The definitive agreements are very close on and there's not a lot—there's a couple of issues we need to work through, but I would expect we're very close on those.

The reason why for the delay in closing is not—nothing to do with any additional negotiation to be done. It's just going to be literally working through the carve-out of the business out of Westport, including our large engineering team that will be moving over, setting up the legal entities, getting the assets transferred in.

So the delay, well, I'll say the delay, the time frame between today and closing in Q2 next year is, frankly, just the time it's going to take to execute on it.

Now I said I wouldn't take the bait on it. We have all the confidence that we're going to close with Volvo, but theoretically, sure, there's lots of other OEMs who were interested to see what we've done, and I'm sure that wouldn't be a concern. We would continue to execute and grow this business with or without, but I just want to say unequivocally we have confidence we're going to get there.

Bill Peterson

Okay. Thanks for sharing the insights.

Bill Larkin

Thank you.

Operator

Thank you. There appear to be no further questions.

I'll return the conference back to the speakers for closing comments.

Tony Guglielmin

Well, great. Thank you, Operator, and it's Tony here again. I just want to thank you all for joining us today.

As you gathered, we're very excited about not just the future business, but we're seeing improvements in our current business and we are executing. We intend to execute against our key strategies, and we look forward to providing you further updates over the course of the next few months.

And beyond that, we'll look forward to speaking to you again at our year-end in the new year. So thank you very much for joining us.

Operator

Thank you. This does conclude today's conference call. Thank you, all, for attending.

You may now disconnect your lines.