

Westport Fuel Systems Inc.**Q1 2024 Conference Call**

Event Date/Time: May 9, 2024 — 10:00 a.m. E.T.

Length: 41 minutes

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PRESENTATION

Operator

Good morning. My name is Dennis, and I'll be your conference Operator today. At this time, I would like to welcome everyone to the Westport Fuel Systems Q1 2024 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'd like to withdraw your question, please press *, then the number 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' first quarter conference call for 2024.

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 Chief Executive Officer and Director Dan Sceli; 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 that certain statements made on this conference call and our responses to certain questions may constitute forward-looking statements within the meaning of US and applicable

Canadian securities law 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, Dan.

Dan Sceli — Chief Executive Officer and Director, Westport Fuel Systems Inc.

Thanks, Ashley. Good day, everyone. Today, I will be recapping our Q1 results and providing colour on our 2024 strategic priorities. I will also be sharing an update on the JV with Volvo and touching on the recently announced Zero Emission Vehicle, or ZEV, legislation. Then I'll turn the call over to Bill to walk us through our Q1 results in more detail.

So touching first on our financial results. Q1 2024 revenues were down 6 percent, year over year, primarily due to decreased volumes in our delayed OEM business as a key customer works through their existing inventory, although we are seeing volumes begin to tick back up here in May.

On the cost side of the equation, we have been aggressive in cost cutting and have begun to make changes. As you well know, some of these adjustments will take time before we see the benefits in our financial statements.

As I mentioned at year-end, nothing is off-limits with respect to reducing expenditures. We have been reducing costs everywhere from the board level to the shop floor. I will dig into some examples of where we are seeing success and where we'll be putting more pressure in just a moment.

In my first three months in the role, I established three main priorities for 2024 and beyond, including, number one, driving success via our HPDI joint venture with Volvo; number two, improving operational excellence; and three, reimagining our hydrogen-powered future.

To ensure that Westport creates value for our shareholders, we need disciplined operations that flow from a strong strategic plan. These priorities are consistent with that need and are expected to elevate the performance and value of our business long into the future.

As you know, we signed the investment agreement for our HPDI joint venture in Q1 and are in the final stage of formalizing the joint venture. We received approval of our competition filing earlier this week, great news, and continue to work towards an expected closing in the second quarter.

The investment agreement was a critical step, and it solidifies Volvo and Westport's commitment to accelerating the commercialization and global adoption of Westport's HPDI fuel system for long-haul and off-road applications.

We continue to work towards an expected closing in the second quarter with some administrative items still outstanding. Once the JV is closed, this is when the real work begins.

In our pursuit of profitability, cost cutting is not merely a priority. It's an imperative.

We recognize that sustainable growth relies on our ability to manage expenses. Therefore, while we are committed to driving top-line growth and operational efficiencies, our foremost focus remains on reducing costs at every opportunity.

We have begun to act in a more disciplined way by identifying cost-saving opportunities and making changes.

In Q1, we incurred \$1.5 million in one-time expenses related to severance and costs associated with setting up the JV. These costs will taper off following the closing of the JV.

We have reduced senior management by six individuals and announced in our information circular we plan to reduce the board size by one. We also plan to reduce board costs in general.

Also, we closed the amended Westport Minda JV in 2024 in the second quarter and are progressing with a restructuring of our presence in India, which is expected to improve our position in that business to generating positive cash flows for the first time in years.

Through strategic headcount reductions across the organization, we are streamlining our workforce to increase operational agility. In addition, we are decreasing our reliance on external consultancy, signalling a shift towards internal expertise and resource optimization, and initiating changes in our production lines to optimize manufacturing cost reductions.

For example, in Italy, we have brought in an experienced individual dedicated to operations, who with the team there, is identifying areas of excess and plans when and how to reduce the cost without impacting our ability to deliver.

Currently, we are evaluating all discretionary costs and, so far, I've updated our hiring policy to focus on limiting any new hiring to key positions only focused on ensuring operational continuity and have implemented travel restrictions to reduce expenses. The goal is to simplify the business and go back to the basics.

Westport is fortunate to be part of a compelling industry in which alternative fuels are seeing increased support and investments.

We are also fortunate that government policy in key jurisdictions like Europe and North America is heading in the right direction for hydrogen as a fuel source.

Recently, here in Canada, we saw the Province of Alberta commit \$57 million to the development of hydrogen power, along with a commitment from Air Products to build hydrogen refueling stations along a key transportation network in the province, demonstrating that hydrogen is essential to decarbonizing heavy-duty transport.

We are very well positioned from a strategic standpoint to be part of the hydrogen play as it evolves.

In our hydrogen business, we are seeing this support take shape where over the past two years we have won seven development contracts or production programs for new 700 bar hydrogen products, complementing our current 350 bar and low-pressure offerings, where we have also added new programs.

Although in early stages, these programs will translate into \$70 million in revenue by the end of the decade.

With a focus on innovation and staying ahead of the market, we continue to add to and improve our product offering and are in production now for the next-generation 700 bar hydrogen regulators, and are beginning on a new line of 700 bar hydrogen manifolds.

Recently, we saw new Zero Emission Vehicle regulations out of the EU, positive news for us and the industry. Our hydrogen HPDI fuel system is compatible with the new ZEV threshold of 3 grams of CO₂ per ton-kilometre.

In addition, our engine management systems for spark-ignited engines and our hydrogen components for fuel pressure management and regulation are clean mobility solutions designed and manufactured for a diverse set of Zero Emission Vehicles with hydrogen fuel systems and components for both internal combustion engines and fuel-cell applications.

The ZEV label conveys valuable benefits to qualified vehicles and fleet operators. It is incentivizing adoption of the cleanest, highest-performing vehicles across the heavy-duty transport sector, aligning with Westport's initiatives. This opens the door for our customers and OEMs to receive incentives, as well as funding and other regulatory benefits for incorporating our solutions.

While this is a strong step forward supporting a hydrogen future, the continued competitiveness, affordability, and growing availability of biomethane ensures that biomethane-fuelled heavy-duty vehicles will continue to make valuable contributions to the decarbonization of the transport well into the future.

Finally, I wanted to touch on our current development projects featuring our HPDI fuel systems across multiple modes of transport. These initiatives represent more than just technological advancements. They embody our unwavering commitment to a brighter, greener future for generations to come.

These projects are long term and ongoing. Therefore, I intend to provide updates or answer any questions about each project throughout their duration, although I may not discuss them in depth as frequently, as we have to respect our customers' confidentiality.

Before digging into some of our key programs, I wanted to touch on our outlook in China.

We remain optimistic on the Chinese natural gas vehicle market, which expanded to well over 100,000 commercial vehicles in 2023. And we continue to collaborate with our OEM partner in the Chinese market to provide an affordable, low-carbon solution in the future.

The parties are currently discussing this work and the obligations of each party going forward. The engine development program continues to evolve and move forward.

Moving to our development programs. In November of 2023, we announced a collaboration with a leading global OEM in the rail industry. This partnership aims to adapt our hydrogen HPDI fuel system for applications in locomotives and related equipment used in freight and transit rail sectors.

Given the size of these engines, the initial design phase is a large body of work and is currently underway. We anticipate the engine testing to occur later in 2025.

In December, Westport announced a monumental development program with a global heavy truck manufacturer. This program focuses on adapting our Next Generation LNG HPDI fuel system to meet the stringent Euro 7 emissions requirements for heavy-duty vehicles.

This \$33 million project is funded by the OEM and as we work together to diligently integrate cleaner energy solutions into the transport sector.

Lastly, we are engaged in a proof-of-concept project with a global supplier of power solutions for marine applications to explore alternative sustainable energy sources for maritime transportation. This project commenced in Q1 and explores the use of our HPDI fuel system fuelled with methanol for marine propulsion.

The testing of HPDI technology for use with methanol in marine applications is a natural extension of our HPDI technology. We expect that our HPDI fuel system with methanol will be able to provide similar torque, power, and efficiency to diesel, while also potentially reducing NOx emissions.

Currently, the engine conversion is being planned with our OEM customer with the intention to run the engine tests later this year.

As we see it, HPDI is well suited for high-horsepower, off-road applications, as the other low-carbon, zero-carbon competing technologies in on-highway markets, including spark-ignited fuel cell and battery electric, all have major drawbacks when used in demanding high-horsepower applications.

Spark-injection systems have inherently lower fuel efficiency, which can be an acceptable trade-off in certain on-highway markets, but not in high-horsepower applications where the annual fuel use is substantial.

Battery electric requires charging time that doesn't work with the daily run time requirements in the high-horsepower space.

Finally, fuel cells could be a consideration, but high-horsepower applications tend to operate at very high load factors, which is where fuel cell efficiency decreases.

We believe that high-horsepower applications will be most effective when used with diesel cycle combustion, the option with the highest efficiency and durability. Therefore, changing the fuel instead of changing the fundamental technologies for these applications is the best option for decarbonization and functionality, and HPDI is the solution.

With that, I'll hand the call over to Bill, who will walk you through our financial results.

Bill?

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

Great. Thank you. Good morning, and thank you, Dan.

In the first quarter of '24, we generated \$77.6 million in revenue. This is a 6 percent decrease compared to the prior-year period.

This decrease is primarily driven by a decline in sales volumes at our delayed OEM and, to a lesser extent, in our fuel storage and our light and heavy-duty OEM businesses.

Partially offsetting these declines were increased sales of our electronics products and an increase in our independent aftermarket business, where we saw our sales increase in North American, Western European, and South American markets.

Gross margin decreased \$11.79 million, or 15 percent of revenue in the quarter. This is down from \$13.3 million, or 16 percent of revenue in Q1 of last year.

This decline is primarily driven by the reductions in the Q1 '24 revenues, which were partially offset by an improvement in sales mix to higher-profit markets in our independent aftermarket business.

Our adjusted EBITDA loss increased by \$2.1 million to \$6.6 million. In the quarter, we had about \$1.5 million of costs related to severance and outside services associated with closing the joint venture. Going forward, we expect to see a reduction in outside services once the joint venture is closed.

OEM revenue for the first quarter of '24 was \$49.3 million, down \$7 million compared to the prior-year period.

In the quarter, sales volumes decreased in our delayed OEM, fuel storage, and light-duty OEM businesses. Our heavy-duty business sales volumes decreased, which were partially offset by higher engineering services revenue.

Sales volumes in our electronics business increased, driven by higher sales to one of our key customers.

Gross margin in our OEM business decreased in the quarter to \$4.5 million, or 9 percent of revenue. This compared to \$8.1 million, or 14 percent of revenue in Q1 of '23.

This decline is largely driven by lower volumes in our delayed OEM business, which traditionally have strong margins. As Dan mentioned, our key customer here entered '24 with excess kit inventory and they were working through their inventory in the first quarter.

As we mentioned on our year-end call, LPG fuel system deliveries to our global OEM customer began in the first quarter. However, we saw a limited impact on revenue as it is only a partial quarter of deliveries, which included a ramp-up in production that is expected to continue throughout the year.

Independent aftermarket revenue for the first quarter of '24 was \$28.3 million. This is up \$2.4 million compared to prior-year period. Increased sales in North American, Western European, as well as expansion in markets in South America, primarily in Mexico and Peru, drove this performance, with sales declining in Africa and Eastern Europe.

Our gross margin increased to \$7.2 million, or 25 percent of revenue compared to \$5.2 million, or 20 percent of revenue in the prior-year period. This increase was driven by higher sales volumes and improvement in sales mix to higher-margin markets.

Turning to liquidity. Our cash and cash equivalents at March 31, 2024, was \$43.9 million. Cash provided by operating activities was \$142,000. This is a significant improvement over the same period last year, helped by continued reductions in net working capital.

Investing activities included purchases of capital assets of \$4.9 million and financing activities were attributed to net debt payments of \$5.8 million in the period.

Looking forward, we have multiple projects and initiatives either announced or underway that will have a positive impact on liquidity, as we continue to prioritize solidifying our balance sheets.

To reiterate Dan's statement about cost, in our pursuit of profitability, cost cutting is not merely a priority, it is imperative. We've been identifying cost saving opportunities and making changes, and we're already seeing a positive impact of these cost-reduction initiatives, with the full effects of these initiatives to be more obvious in our financials after we close the joint venture and those one-time costs taper off.

All that said, we have a lot more to go. Moving forward, we'll continue to be prudent in our liquidity management and multiple steps are being taken to do so. And we will continue to do so what is necessary to ensure that we are adequately and fully capitalized.

Thank you. And with that, I will turn it back to Dan.

Dan?

Dan Sceli

Thanks, Bill. Finally, I wanted to close on a few key points.

Westport is part of a compelling industry with a bright future, and we are driven to make a material impact on the decarbonization of the transport industry.

Although revenue was a miss this quarter, it wasn't permanent. And we're making the necessary changes to optimize operations, cut costs, and ultimately close on the HPDI joint venture.

Our short-term goal is to stabilize the business. Long term, we will be focused on building a sustainable and profitable future. Driving our three key pillars with a culture of discipline and excellence will deliver the objectives we established.

I want to take a moment to thank everyone for being here today.

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

Q&A

Operator

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

Should you have a question, please press *, followed by 1 on your touch-tone phone. You will hear a three-tone prompt acknowledging your request, and your questions will be polled in the order they're received.

Should you wish to decline from the polling process, please press *, followed by 2.

If you are using a speakerphone, please lift the handset before pressing any keys.

One moment, please, for your first question.

Your first question comes from Colin Rusch with Oppenheimer. Please go ahead.

Colin Rusch — Oppenheimer

Thanks so much, guys. Appreciate the comments around customer inventory. Can you talk a little bit about what you're seeing in terms of sell-through on that inventory and when you think it'll be fully cleared?

Dan Sceli

Bill, you want to jump in on that one?

Bill Larkin

Sure. Yeah. No problem. So we're already starting to see those sales starting to pick up for demand. This is a customer that has just grown significantly in Italy, in the Italian market, and they're going through some growing pains. And so we're there to help them.

And through their process just they procured too much inventory. And they're working through that, and we're starting to see that come back online where we're starting to see orders for those kit inventories to be delivered. And that'll continue to ramp up the back half of the quarter.

Colin Rusch

Okay. That's very helpful.

Dan Sceli

And that's some very specific stuff. But yeah, in general, one of the things that we have done is implemented an inventory committee because inventory's one of our top priorities.

Working capital, obviously, overall is a top priority for us. And we are digging in and setting new targets to manage inventory better, having a better connection between a customer order and a supplier order to be more disciplined in how we manage inventory overall.

Colin Rusch

That actually is a good dovetail into my second question, which is really around working capital. So as you guys look forward, how big an opportunity is there over the next couple of quarters to generate cash from the balance sheet and the existing working capital exposure?

Bill Larkin

Right. I think we do. We've made a lot of progress, Colin, over the last, call it, 12-plus months in improving our working capital and continuing to generate that and turn that into cash.

We still have a lot more work to do. As you saw, we had a fairly significant reduction in our receivables during the quarter, which definitely helped from a cash flow perspective.

But I think inventory is an opportunity for us to continue to reduce our net working capital, enhance our liquidity. And as Dan mentioned, that's a high priority for us to go tackle that and try to reduce inventory, improve turns.

But it's going to be a team effort to drive down the inventory to levels that we can efficiently manage while we can still deliver on our customer demands.

Colin Rusch

Okay. Thanks so much, guys.

Dan Sceli

Yeah. Yes. Let me comment just a little bit more on that because one of the things when I talk about driving discipline in our business is making a lot of these processes the routine and not the exception; not seeing something and going, oh, boy, we got too much inventory in this, what are we going to do about it?

We need a process that ensures that buildup doesn't happen in the first place, that we manage that balance between order from customer, to order to supplier, and make it the routine, not the exception.

Operator

Thank you. Your next question comes from Chris Dendrinis with RBC Capital Markets. Please go ahead.

Chris Dendrinis — RBC Capital Markets

Yeah. Good morning. Thank you.

Dan Sceli

Good morning.

Chris Dendrinis

I guess I wanted to begin here. You had some commentary in the prepared remarks around your China partner. And so I guess I wanted to go back to that. And specifically, I think you mentioned you're discussing the work and some obligations that each of you all have moving forward.

So could you maybe discuss that in a bit more detail? What are the kind of commitments or obligations here from the parties? And maybe how should we think about things progressing?

Dan Sceli

Sure. Sure. Well, let me start with in terms of production orders. We have no production orders from them currently in the system. We have had more development orders for development on their engines and that's going to continue.

We're trying to work with them on planning and crafting where that development is going to go down the road.

Chris Dendrin

Got it. Okay. Nice. And then maybe shifting gears a little bit to the H2 opportunity, and you highlighted maybe \$70 million of revs by the end of the decade. I guess, maybe, what's sort of underpinning that assumption? And then what's the cadence, or how are you guys thinking about the cadence of that opportunity? What are the kind of levers that would, I guess, accelerate that opportunity going forward?

Thanks.

Dan Sceli

Sure. Sure. Yeah. The H2 numbers we're talking, these are the components that go into the hydrogen systems, and we're selling to the big Tier 1s globally. And they have a—we have been, obviously, working on development projects with them.

And now we're getting production purchase orders and prototype purchase orders to take those forward into production and on a number of OEM platforms.

And what we're finding is that the hydrogen components under GFI are qualified as the best globally. And so we're getting in a lot more opportunities than we can actually handle.

And so as the hydrogen ecosystem evolves, these components are going to play a key role in ramping up production in the next few years.

Chris Dendrin

Got it. Thank you. That's everything for me.

Dan Sceli

Okay.

Operator

Thank you. Your next question comes from Rob Brown with Lake Street Capital Markets. Please go ahead.

Rob Brown — Lake Street Capital Markets

Good morning.

Dan Sceli

Good morning.

Rob Brown

Good morning. I want to follow up on kind of the cost cuts. I think last time you talked you were still getting into it, but do you have a sense on maybe the goals on the cost cuts ultimately? Or a sense of when you can get to profitability?

Dan Sceli

Yeah. So I mean, our goal is—first I'll talk very generally about what I call flexing our costs as when you're in the automotive and mobility markets, volumes can go up and down. And we need to have an underlying system, a disciplined system that flexes our costs with those volume changes up and down.

What we're doing right now, though, is stabilizing the business by reducing our cost to the level of the business we're in right now, followed by a process or a system that will flex those costs on an ongoing basis.

Sort of like I mentioned on the inventory, we need this flex management to become the routine and not the exception. We can't wait until the end of a quarter and see the numbers and go, okay, we need to do something. It needs to be a day-to-day effort.

But in the meantime, this first short-term goal is to get the overall costs aligned with the size of the business we have. Clearly, our cost and our overhead were far too high for the business we had and we're making those adjustments.

Bill Larkin

Rob, and I think that, too, on your question, we're not going to be able to cut our way out of this. We need to grow the top line as well. So it's got to be a balanced approach between cutting costs, rightsizing the business, but we also have to focus on growing the top line to get to profitability.

Rob Brown

Yeah. Yep. Okay. Okay. Thank you. And then on, I guess, the European heavy-duty market, I think was down in the quarter you mentioned. But I think there's some signs of life in that market. How do you see that market recovering and growing into this year?

Dan Sceli

Yeah. And I mean, we're all watching every day what's happening both in the heavy-duty and the light-vehicle markets on volumes. It's pretty volatile. Our goal is to be prepared if the volumes do come that we're prepared to supply it at whatever the customer needs.

Do I think the market is going to rebound in heavy trucks? I'm hoping so. I don't have that crystal ball. We rely completely on our OEM customers to let us know exactly where they're going and what they plan on for volumes.

Rob Brown

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

Operator

Thank you. Your next question comes from Amit Dayal with H.C. Wainwright. Please go ahead.

Amit Dayal — H.C. Wainwright

Thank you. Good morning, Dan and Bill.

Dan Sceli

Good morning.

Amit Dayal

With regards to the Euro 6 and 7 deliveries, have they commenced? You had highlighted that these deliveries potentially would be beginning in 2024. So just wondering where that is?

Dan Sceli

Sure. Euro 6 has begun. Euro 7 is going to be ramping up. We did see a bit of a delay in the launch of some of the new programs with our OEM customer, our biggest OEM customer over there. But we do expect those to ramp up faster now that the delay has put some pressure on them in the marketplace.

So Euro 6 has started and Euro 7 is coming.

Amit Dayal

Understood. I know the first quarter was a little bit weaker year over year, but 2024, should we continue to anticipate year-over-year growth as some of the customers who may have delayed orders, et cetera, come back and other initiatives sort of start ramping for you guys?

Bill Larkin

We're—

Dan Sceli

Bill, you want to—

Bill Larkin

Yeah. Yeah. I'll start to answer that. So on a yearly basis, it's going to be a little bit of a challenge and in Q2 from a reporting standpoint and to provide transparency on the business as it is today and what the future business looks like and what is the future.

As we sit here, we're expecting—clearly, Q1 was a weak quarter. And we do expect Q2 to pick up, which is with the seasonality that's typically what we see in our business where it ramps up in Q2, and we'll see that drop in Q3 just because of the seasonality and most of Europe's on holiday, then we'll see the business ramp back up in Q4.

Amit Dayal

Okay. Thank you for that. Yeah. Just one last one for me on the China side. This was a big part of the narrative a few years ago and then there wasn't much progress. This time around is there potentially a way to sort of accelerate this relationship and opportunity from development-type work into production orders?

Just trying to get a sense of whether this is coming back to potentially really contribute in terms of revenues and margins not in 2024, but maybe 2025 and beyond.

Dan Sceli

Yeah. You know what? I think—

Amit Dayal

So what are the catalysts that are driving sort of this revival in this relationship and opportunity?

Dan Sceli

Yeah. So I think when you said 2025, I think you hit it right on. I think that's when—we're still working engine development activities and we don't know, or can't speak to specific timing of when that customer will kick off production of that model.

But we still have a good relationship. We're still doing development work. They're still looking to use our technology for the new platform. But as I said earlier, we have no orders today on production for within 2024, but the development will continue in a positive way.

We're still working very well with them.

Amit Dayal

Okay. Yeah. That's all I have for now. I will follow up offline. Thank you so much.

Dan Sceli

Yep. Yep. Good.

Operator

Thank you. Your next question comes from Jeff Osborne with TD Cowen. Please go ahead.

Jeff Osborne — TD Cowen

Hey. Good morning. Just two quick ones on my side. I was wondering, Bill, if you can frame the OpEx run rate post the announcements that you detailed on the call? is there a way to think about the dollar value of costs that's been taken out of the business?

Bill Larkin

Yeah. Right now, we're not a position to quantify what that is. We expect to see as we progress on these cost reductions, we do expect our G&A, sales and marketing run rate to decline on a comparative basis. And I suspect we'll huddle up internally, and on future calls I'm sure we'll continue to provide updates on how we're progressing on our cost-reduction initiatives.

Jeff Osborne

Got it. So then, maybe—

Dan Sceli

The scope—sorry, let me add to that—the scope of our cost-reduction activities, as I said in the opening, it's from the board right down to the shop floor.

Jeff Osborne

Yeah.

Dan Sceli

There's nothing off limits and we're very aggressive in cutting the costs. And as you know, many times when you go about this, you're taking on a bunch of one-time costs to get there.

We're still mapping out the run rate, but we're in the middle of this cost cutting. Right? It's an aggressive effort across the company and as we get through it we'll get a better feel for what it's going to look like longer term.

Jeff Osborne

Got it. I assume you couldn't touch on is there any cash severance that we should be modelling in or one-time charges for the upcoming quarter?

Bill Larkin

I think from one-time severance, I don't expect it to be significant. We did have some severance, as we've mentioned, in the first quarter.

In terms of one-time costs, we're still, as we mentioned, we're still incurring outside services related to getting the joint venture to the finish line and getting that kicked off. And we should start seeing that taper off in the third quarter.

Jeff Osborne

Makes sense. And my last one is just is there any notable technical progress that you could update us on on the hydrogen ICE engine platform more broadly?

Dan Sceli

Yeah. I mean, I think, I don't know if you saw the latest market news. Our OEM customer has announced a continuing development of hydrogen and how it plays ... the hydrogen ICE engine plays a key part in their strategy going forward. We're hearing that from a number of OEMs, so we're getting an awful lot of interest in the hydrogen HPDI as a solution for the next 5, 10 years.

So yeah, the development's continuing and it makes us very optimistic about the longer term.

Jeff Osborne

Great to hear. That's all I had. Thank you.

Operator

Thank you. Your next question comes from Mac Whale with Cormark Securities. Please go ahead.

Mac Whale — Cormark Securities

Hi. Good morning. Just one quick one for me. Dan, I'm just wondering as you rightsize the organization, where do you think the biggest risks lie for the business? Is it potentially the negative impact on sales? Or is it that you make these changes and don't get any impact on margin? I just want to understand the risk versus the goals you're after.

Dan Sceli

Yeah. Sure. So that's one of the reasons it's not like hitting a light switch, Mac. We're looking at each part of our business, each discipline, each region, figuring out where we can cut without affecting our ability to continue to grow the business.

And Bill said, we can't cut our way to prosperity, but we have to rightsize the business. So each discipline is being looked at to get it rightsized to the business we are today with a view forward to where the growth opportunities are.

So while we're trying to—corporate overhead, as an example, we're trying to get that rightsized. And on the technical side, the engineering side, we're keeping our team focused on these big development projects. As we talked about, we have a bunch of big development projects that are really going to lead to our future. So we're not cutting those, but it's just rightsizing every discipline to the business we have.

Mac Whale

Okay. And then just as a follow-up then, can you put a time line on how long that takes? Like is there a sort of a—is it a couple quarters and then you're in this new sort of organizational structure and then you expect maybe a year or two to get a benefit from that? Like how should we be thinking about that?

Dan Sceli

Yeah. That's—yeah. That's probably a good way to describe it. I think that the corporate-type cost cutting is happening faster than some of the operational cost cutting because while we look at our operations to get those fine-tuned, you can't cut them as fast because you're delivering product every day.

So to me, it's two different buckets. Getting the corporate to overhead rightsized, we can do pretty aggressively. The operational stuff takes longer. Putting in place some of the disciplined manufacturing processes we want to use, as I mentioned, like inventory management and getting that process between when a customer orders and we order from a supplier, getting that efficiently balanced, those things take a longer time.

So it's going to be into next year before we see some of those benefits. We'll see the corporate cost cutting benefits by the year-end, and then we'll roll into next year with the continued focus on the operational side.

Mac Whale

Okay. Great. That's all I have today. Thanks, guys.

Dan Sceli

Thanks, Mac.

Operator

Thank you. Your next question comes from Eric Stine with Craig-Hallum. Please go ahead.

Eric Stine — Craig-Hallum

Good morning, everyone.

Bill Larkin

Good morning.

Dan Sceli

Good morning. How are you?

Eric Stine

Hey. So I'm—hey. So I know right here at the end of the call most everything has been touched on. But just curious, the Chinese OEM, I mean, this is certainly the most you've talked about it in a long, long time. And I know that LNG sales to China are quite high and the outlook there is very good.

I mean, do you—am I off base in thinking that this kind of I don't know if it's reengagement, but pickup in engagement has to do with LNG?

And I ask because—and this is before your time, Dan—but at one time the view was Weichai might just skip LNG altogether and just move to hydrogen. And it strikes me that potentially that's kind of being rethought, that LNG is a very viable and attractive opportunity.

Dan Sceli

Yeah. I mean, I think LNG in the Chinese market as a whole is going to be continuing to grow. And the transition to hydrogen, just like everywhere in the world, there's a balance between when infrastructure gets in, when the price of hydrogen comes down. All those things have to align for hydrogen to take off and it will.

In the meantime, LNG is going to be the growth piece for China. And so the great thing is that our technology can run both. Right? It's a—we call it the bridge technology. It can run all of the different alternative fuels.

And that's why I keep stressing, we don't have any orders right now from Weichai for production. We've been shipping them development parts for trials. We're continuing the development work. And we're optimistic that we will get through the development programs and into production at some point, but we don't have orders today.

Eric Stine

Yep. Understood. But a good sign, nonetheless. I guess that's it for me. Thanks.

Bill Larkin

Thank you.

Dan Sceli

Thanks. Take care.

Operator

Thank you, Eric. There are no further questions on the line. Please proceed.

Dan Sceli

All right. Well, thank you very much, everyone, for your questions. I know I'll be talking to a bunch of you throughout the day, and I look forward to it.

Thank you.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you participating and ask that you please disconnect your lines.