

Westport Fuel Systems, Inc.(Q3)

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Corporate Speakers:

- Ashley Nuell; Westport Fuel Systems, Inc.; Vice President, Investor Relations
- Dan Sceli; Westport Fuel Systems, Inc.; Chief Executive Officer and Director
- Bill Larkin; Westport Fuel Systems, Inc.; Chief Financial Officer

Participants:

- Amit Dayal; HC Wainwright; Analyst
- Eric Stine; Craig-Hallum; Analyst
- Rob Brown; Lake Street Capital Markets; Analyst
- MacMurray Whale; Cormark Securities; Analyst
- Jeff Osborne; TD Cowen; Analyst

PRESENTATION

Operator: Good day. And thank you for standing by. Welcome to Westport's Third Quarter Conference Call. (Operator Instructions)

Please be advised that today's conference is being recorded.

I would now like to hand the conference over to Ashley Nuell Vice President of Investor Relations.

Please go ahead.

Ashley Nuell: Good morning, everyone.

Welcome to Westport Fuel Systems' third 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 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.

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

Dan Sceli: All right, thanks. Thanks, Ashley. Good morning, everyone. Today I will be summarizing Westport's progress and results for the third quarter of 2024, providing updates on our strategic priorities including an update on the JV with Volvo. Bill will then walk us through our Q3 results and provide some commentary on the ATM offering that we announced in the quarter.

Q3 was a steady quarter with wins in key areas. This was the first full quarter with Cespira being operational. That along with the steps that we have taken with respect to cost cutting, has enabled Westport to lower expenditures in research and development, as well as sales general and administrative expenses by approximately 40% as compared to the same period last year.

This has all led to improved gross margins in adjusted EBITDA. Although we reported a decrease in total revenue this quarter, we view our revenue results for the quarter as a win, and I want to provide some clarity as to why.

As I mentioned, this is the first full quarter with Cespira being operational. That means we transitioned our HPDI revenue from our heavy-duty OEM segment into the joint venture in the quarter and accounted for it under the equity method of accounting for investments.

During the quarter, Cespira generated \$16.2 million in revenue, more than offsetting our reported decline in consolidated revenue.

With respect to our HPDI joint venture, I want to provide a couple of different updates. The background on its new name, my perspective on its first full quarter of operations and some insight into the partnership in China.

First, JV unveiled its name as Cespira as part of its participation in the IAA, one of the most important industry events for commercial vehicles, transport and logistics. The name Cespira, which combines espira meaning breathe out in Latin with a C for clean, perfectly embodies the joint venture's mission and vision. Regarding the JV operations third quarter revenue for Cespira was \$16.2 million, a \$2.7 million increase from the same quarter last year, which was formally captured under our heavy-duty OEM segment.

Next, I want to touch on our work with Weichai, as you know we have a technology development and supply agreement, which includes an obligation for Weichai to order certain volumes of HPDI fuel system components prior to the end of this year. Currently, we have not received any significant orders against this agreement and we don't currently anticipate orders for any significant additional volume by the end of 2024.

Both Westport and as well as Cespira continue to collaborate with Weichai Power on an HPDI fuel system equipped version of the Weichai engine platforms, and we are currently discussing the next stages of this work and the obligations of each party going forward.

We continue to do things to right-size the business and cut costs where we can. Many of these changes aren't visible in the financial statements immediately.

However, in Q3 2024, we really began to see some of our initiatives materialize. Given this is the first quarter with Cespira operational, some of our expenses of course will now be reflected as part of Cespira. Yet we are also seeing wins in our other business units.

During the quarter, we decreased the company's SG&A expenses by almost 40% as compared to third quarter of last year, a decrease of \$6.6 million of which only \$2.3 million relates to expenses that now sit in Cespira.

This is a major accomplishment that I'd like to highlight, further, our R&D expenses also decreased by over 40% compared to the same quarter of last year a \$2.5 million difference in expenses mostly attributable to Cespira.

We'll continue to remain diligent when it comes to cost cutting and decreasing expenses, ensuring that the business runs more efficiently and effectively over time.

We are pleased with our progress so far, but acknowledge that there is still much work ahead of us on this front.

We remain confident in the role that alternative fuels will play in driving sustainability in the future of transportation and industrial application spaces.

We do see a slowdown in hydrogen infrastructure development, which is leading to a slower adoption of automotive and industrial applications powered by hydrogen.

We believe that it could be a multi-year delay when it comes to the availability of low cost, low carbon, hydrogen, and hydrogen refueling infrastructure.

However, we remain confident on the role that hydrogen will play in driving sustainability in the future of transportation and industrial application spaces and in the future of Westport, while hydrogen is key to the future decarbonization of transport, our components and solutions are already powering emission, reducing innovation today across a range of alternative fuels including natural gas, renewable natural gas, propane, and hydrogen.

With decades of experience, market leading brands and unmatched engineering expertise, we are a leader in the market.

Our light-duty segment has been performing well.

We continue to focus on innovation, creating and deploying fuel system solutions that allow our customers to benefit from the cost advantage of alternative fuels.

As you know we started production earlier this year for the Euro six LPG program for a leading global OEM. Although, we got off to a slow start earlier in the year, this business is performing well and we are expecting to exceed our delivery expectations for 2024, driven by an increased customer demand. Euro seven LPG fuel system deliveries for the same global OEM customer are anticipated to begin mid to late 2025.

We are also excited to be part of the new Kia Niro Tri-Fuel in Italy inspired by innovation and efficiency. Born from a partnership with Kia, Italy. This is the first ever OEM hybrid vehicle powered by HEV and LPG technologies. This car can travel over 1,600 kilometers or almost 1,000 miles on full tanks, all while delivering reduced emissions and uncompromised performance.

Finally, our prince brand is globally released an LPG fuel system for the RAM 1500 Hurricane 3.0 DI Twin Turbo engine that enabling customers to benefit from lower fuel costs and lower emissions. Lastly, as we have shared before, one of our key delayed OEM customers paused orders as they worked through a buildup of inventory on their end.

Orders from this customer have seen an uptick over the last month and we continue to work closely with their team.

With that, I'll turn it over to Bill to discuss our Q3 2024 financial results in more detail.

Bill Larkin: Good morning and thank you, Dan.

Moving to our third quarter results, this is the first fourth quarter with Cespira being operational and as Dan mentioned, we're accounting for Cespira under the equity method of accounting for investments. Therefore, our third quarter P&L only includes our 55% interest for the net loss of Cespira.

The third quarter of 2024, we generated \$66.2 million in revenue, which was a 14% decrease compared to the prior year period. This decline of revenue was primarily driven by the heavy-duty OEM business, which is now conducted in Cespira. Cespira generated revenue of \$16.2 million in the quarter, this is up from \$13.5 million in same quarter as last year.

Gross margin increased to \$14.5 million or 22% of revenue in the third quarter of '24. This is up from \$13.2 million or 17% of revenue in Q3 of 2023. This improvement was largely driven by an increase in sales volumes and our light-duty business, along with the change in sales mix with an increase in sales to European customers in addition to seeing

the initial improvements from our cost cutting initiatives. These were partially offset by a reduction in sales to developing regions.

We continue to demonstrate improvement in our adjusted EBITDA.

Now this quarter we recorded an adjusted EBITDA loss of \$800,000, which was a significant improvement over the \$3 million adjusted EBITDA loss recorded in the prior year period. Light-duty revenue for Q3 2024 was \$61.5 million as compared to \$60.2 million for Q3 of '23. This increase was primarily driven by an increase in sales in our light-duty OEM and independent aftermarket businesses partially offset by decrease in our sales and our fuel storage, DOEM and electronics businesses.

Gross margin in our light-duty business increased in the quarter to \$13.9 million or 23% of revenue.

Now this is compared to \$12 million or 20% of revenue in Q3 of '23. This was primarily driven by a change in sales mix with an increase in sales to European customers and a reduction in sales to developing regions.

As Dan mentioned, our light-duty segment continues to evolve our LPG fuel system solution, providing more customers with cost competitive alternatives. This along with the success we are seeing following the start of our plan zero six deliveries. This has enabled light-duty OEM to drive revenue and margin growth in the quarter.

High pressure gas controls revenue for Q3 of '24 was \$1.6 million.

Now this would decrease as compared to \$3.7 million for Q3 of '23. This is primarily driven by a general slowdown we're seeing in the hydrogen markets. Gross margin decrease in the quarter of \$400,000 or 25% of revenue as compared to \$1 million or 27% of revenue in Q3 of '23. Heavy-duty OEM revenue for the third quarter of 2024 is \$3.1 million. This is down \$10.4 million compared to the same quarter last year.

Revenue decrease was a result of the transfer and continuation of the heavy-duty business in Cespira. Revenue earned in the third quarter of 2024 relates to our transitional services agreement with Cespira, which is expected to be in place until early to mid-2025. Gross margin in our heavy-duty OEM business in the third quarter of 2024 was flat compared to Q3 to '23.

It was up as a percentage of revenue for 1% in the prior year period compared to 6% in Q3 of 2024.

Regarding liquidity, our cash and cash equivalents at September 30, 2024 was \$33.3 million. A decrease of \$8.2 million as compared to the end of Q2 of 2024. That cash used by operating activities was \$9.9 million. This change was primarily related to net cash outflows for inventory and timing of payments for accounts payable and accrued

liabilities compared to the end of the second quarter, which were partially offset by a reduction in accounts receivable.

Specifically to inventory, inventory increased in the third quarter by \$9.9 million as compared to the end of the second quarter.

Inventory was primarily impacted by the ramp-up to support expected deliveries of Euro six kits in Q4 and the heavy-duty business under the transitional services agreements.

However, we were targeting inventory reduction back to more normal levels by the end of 2024.

Net cash provided by investing activities was \$7.5 million in the quarter. Net cash used in financing activities was \$7 million. This is primarily related to debt repayments including fully repaying and terminating a revolving credit facility.

I want to provide an update on our ATM offering. The ATM was set up with the intention of providing added option optionality and flexibility to opportunistically raise capital.

Since, we put the program in place in mid-September, we have not sold any shares under the ATM program.

We will continue to do what is necessary to ensure we are adequately and fully capitalized.

We remain focused on solidifying our balance sheets.

We've been actively implementing cost saving initiatives, which is reflected in the quarterly results we shared with you today.

Thank you. And with that, I'll turn it back over to Dan.

Dan Sceli: Thank you, Bill.

Before we wrap-up this quarter's earnings call I wanted to close with a few comments. Although I'm incredibly proud of the work we have done to date, we acknowledge that considerable work lies ahead as we look-forward.

Westport is motivated by the possibilities that the future holds and is resolute in its pursuit of innovation and sustainability. To reiterate regarding the global hydrogen market, we acknowledge the slowdown in infrastructure development that will likely lead to a slower adoption of automotive and industrial application powered by hydrogen.

We are steadfast in our belief that hydrogen is a fuel, although gradual, as opposed to immediate will prevail and become the clean fuel source for the transport industry that is adopted worldwide.

We are committed to providing solutions that enable our customers to take advantage of lower emissions and lower costs, often provided by alternative fuels like LPG, CNG, LNG and in the future hydrogen.

We have many of these solutions in the market today and are committed to continuing to advance decarbonization across the mobility sector.

I want to thank everyone for being here.

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

QUESTIONS AND ANSWERS

Operator: (Operator Instructions) Our first question comes from Colin Rusch with Oppenheimer.

Unidentified Participant: Hi, this is Andrew on for Colin. Just a couple of questions from us. You guys continue to make incremental progress on GM improvement.

Could you guys speak to the contributions of pricing, supply chain optimization and mix that are driving some of these improvements?

Bill Larkin: First of all, it's a little bit of improvements related to the supply chain.

It's just across the board and we're looking at every -- our entire cost structure from the supply chain to labor to our manufacturing footprint.

So from a supply chain standpoint, it was just a small piece of the overall cost reduction.

Unidentified Participant^ And just following up on that, can you guys speak to the evolution and maturation of non-transportation hydrogen applications and the opportunity for Westport, particularly in Europe?

Dan Sceli: Not -- so you're talking about infrastructure?

Unidentified Participant: Yes, particularly.

Dan Sceli: Yes.

So in the infrastructure segments, our high pressure controls and systems, business unit is where we play and with all of our pressure relief valves, tank valves, et cetera.

We do see some opportunities for some of our cryogenic pump products, but those markets are developing, we continue to play in those markets, and not just in Europe.

It's a global requirement for these types of components, whether it be in China or Europe.

And so we're going to continue to push that business unit's technology.

We in fact, with our GFI brand, we've become the leader in the market in terms of performance.

Unidentified Participant: Thanks so much for that.

I'd like to sneak one last one in.

As you guys look at the balance sheet, can you speak to what your medium-term working capital and operational cash needs are and how you sort of expect to meet those needs?

Bill Larkin: Yes. So from a working capital standpoint we did have an increase in our working capital.

It was mostly driven by our inventory. That was a big chunk of it, and we were just building inventory to meet the expected demand from our, for Euro six kits in the fourth quarter, as well as for the heavy duty OEM business.

We expect, you know the inventory levels to come down significantly in the fourth quarter, and it's going to continue on into 2025.

We believe there's a lot of opportunities to reduce our inventory and improve our inventory turns going forward, which will reduce our working capital.

Other areas, you know just because of the reduction in, you know revenues because it is seasonal. Typically our third quarter is the lowest quarter when it comes to revenues.

We did see that decline in AR.

We think there's some opportunities there to try to further reduce our DSOs and improve in collections on our AR reducing our working capital. And on the flip side, it just with the timing of our accounts payable that drove up our working capital as well.

So we're going to try to better improve our payment management.

So it's going to be a combination of those who try to actually, we want to reduce our working capital next year.

Operator: Our next question comes from Amit Dayal with HC Wainwright.

Amit Dayal: Thank you. Good morning, everyone. Dan, congrats on a strong quarter. Just with respect to Cespira, is there, do we have a sense of how much sort of breakeven or gross margin positive level revenues will be? I know this was very early first quarter,

but you know do we need to be at like 20 plus million or 25 plus million per quarter to hit positive gross margins for that business?

Dan Sceli: Yes. It depends on the mix.

It's hard to peg a specific number because there's a split between, you know final product assembly parts versus aftermarket parts, the service of the trucks. And so that makes changes a lot and it affects the numbers we would need.

But we're still working through, you know the setup of that business and, you know getting it operational takes some time.

We obviously started five months ago and, so I don't think we can give it an exact number to that right now.

Amit Dayal: Okay, understood. And with respect to Weichai, I know it hasn't really contributed much the last few years. How should we think about, you know contribution from Weichai going forward? Looks like you are still sort of, you know maintaining a relationship with them, but, you know should we factor anything from China or Weichai as a part of our future projections?

Dan Sceli: At this point I would say no.

We have no orders on that contract and, but the engagement continues. They are working with us on the technology HPDI technology for the Chinese market. They're working through their engine development programs and doing their trials and so we're still engaged, but we have no orders at this point.

Amit Dayal^ Okay. Understood. And then from a tariff perspective right after this election, what is our exposure potentially to developments on that side especially for say the U.S. market or business we do in the U.S. How are we sort of positioning for any headwinds that may emerge from that front?

Dan Sceli: Yes.

I actually look at it the other way.

I see that, I think the runway for natural gas products primarily in North America in the U.S. on CNG, but we see an opportunity that we would like to take advantage of for a longer runway and bigger volumes on natural gas.

So we're actually optimistic from this election outcome in that regard.

Operator: Our next question comes from Eric Stine with Craig-Hallum.

Eric Stine: Just talking about hydrogen and that the infrastructure is in a bit of a transition period. Just curious behind the scenes for HPDI and the joint venture, are you seeing any change to the activity of OEMs related to hydrogen? And I guess, you're fine if it's hydrogen or LNG or both but is there a change for OEMs related to hydrogen? Is that driving people more to LNG or what are you seeing at this point?

Dan Sceli: Yes. I'd suggest Eric that we haven't actually felt any change in the -- on the development side, because obviously these development cycles take a number of years and the OEMs are still working forward on these plans.

I think, they all the OEMs in the heavy market see the multiple propulsion systems they're going to need, and they're going to continue to develop them. The pace of development, we haven't felt a change yet, but I suspect that we're going to see, some slowdowns in the development of hydrogen work.

But as you say, we've got the LNG solution that we're actually feeling volume increases already. And it's a good balance to have. And that's one of the -- we think one of the strengths of Westport is that we can in our multiple business units, we can run all the alternative fuels.

We have solutions today.

So whether hydrogen's 5-years or 10-years away, it doesn't matter to us.

Eric Stine: And you just mentioned in response to a previous question, just a nice runway for natural gas products in the U.S.

I'm curious, I know that in the past there's been some talk of HPDI interest in North America.

I know that one of the objectives of both Westport and Volvo was a second OEM in the joint venture.

So just wondering if you can speak to those topics.

Dan Sceli: Yes. We continue to work with a second OEM to bring them on board. That work is going to continue throughout the rest of the year here. And I can't tell you definitively when that will be complete however much I would like to, but we will bring on a second OEM that is our mission, it's the mandate of the joint venture to have multiple OEMs that was one of the key structures of the deal with Volvo, was to ensure that we had an independent business that could attract other OEMs.

And we're finding the strategy of the OEMs wanting multiple propulsion systems because the segment is going to be needing different solutions.

It's going to play right into our hands.

So it is going to, it's not coming as fast as we want, but it's coming.

Eric Stine: Got it. And then, I mean I would assume then that that interest, and I know you're talking about a second one, but more broadly would potentially include something in the U.S. at some point, maybe a CNG version.

I think you've mentioned that in the past.

Dan Sceli: Yes. We're working that angle as well pretty hard. And we absolutely believe there's a place for it in North America. And you know I think the question I got earlier about the U.S. election and the impact on these segments, I think it's going to work well for us to give us some pressure on the market to deliver a CNG solution. And we are talking to multiple OEMs in North America, and we'll continue to position ourselves to be a solution for them.

Operator: Our next question comes from Rob Brown with Lake Street Capital Markets.

Rob Brown^ Just wanted to get a sense on your thoughts on like the gross margin, the gross margin you can get to as you take costs out you have good improvement this quarter, but what's the -- what's the sense of how much improvement you think you can get there?

Bill Larkin: Well I think for the quarter we were really happy on where we landed on the gross margin. You know I don't think we're in a position to provide, you know guidance looking-forward.

However, you know the process is not over.

I think there's still a lot more work to do across all the input costs, whether it's material costs, direct labor, fixed manufacturing.

We are continuing to review look at the entire cost structure and cost to deliver our products, kits, systems, components to our end customers.

So I'll leave it at that, but we're still looking at it, Rob.

Dan Sceli: Yes, Rob, one of the important things is we're not just, you know we're not just content with improving our gross margins today.

One of the things we're doing is putting in place operational processes to ensure that we can hold onto them.

As we all know that in the industrial space the cost structures are quite sometimes volatile, whether it's on the raw materials or energy, et cetera.

Our goal is to not just fix this foundation, but put in place a business process that can hold it and maintain it.

Rob Brown: Okay. Got it. Thank you. And then I guess on the, I think you talked about a Euro seven shift happening in '25.

What's sort of your opportunity there and do you see sort of any transition kind of timing slow down or is this incremental to where you're at today?

Bill Larkin: No. I think are you referring to the light-duty business, Rob? So if you're referring to light-duty business, yes.

We expect it, we will start transitioning to, you know delivering Euro seven kits.

I expect it'll be a very seamless transition from Euro six to Euro 7.

We're already producing those components, going through the final certification processes and delivering the components.

So you know we're prepared to start delivering those components, next year. And so there's really no disruption from a production standpoint, switching from Euro six to Euro 7.

Rob Brown: And then last question on the heavy-duty business, do you see the kind of the pipeline increasing there? We've heard indications that's happening. Are you seeing kind of an uptick in overall demand in that market kind of in next year?

Dan Sceli: Yes.

We're seeing it now.

Our volumes are increasing, and we're working hard to meet all the volume increases that we're being asked to meet. And we're actually quite excited about that.

Operator: Our next question comes from MacMurray Whale with Cormark Securities.

MacMurray Whale: Cost cutting efforts.

Is the plan to bring, to get to EBITDA break-even sustainably on a quarterly basis?

Bill Larkin: Yes, of course --

Dan Sceli: That's where we're targeting absolutely we want to get there and then -- and of course maintain it. Just like my comment to Rob, getting things where we want them is step one, maintaining them with some good business practices is just as important.

MacMurray Whale: So digging into that a little bit, is that, are you confident that is, that's an operational set of changes or do you, are there still parts of the business that need to be restructured or sold outright? I mean how are -- where are you on that process of restructuring or sort of rightsizing the organization?

Dan Sceli: There's still work to do there. Absolutely, for us to get this business in a position and position that we can be sustainably improving earnings.

So yes, more work to do on the restructuring and reorganizing of the business. And I think you nodding, we talked about this before, it's not like a light switch. This is going to take some time and especially doing business in Europe, things don't happen as fast as I would like them, but they're happening and we're getting momentum and that's the thing that I'm excited about is the momentum that we've got going now in fixing the business and building a strong future.

MacMurray Whale: So if just trying to put together sort of an outlook, is that a process that takes, like is it a question of a few quarters or is it a year?

Dan Sceli: It's not quarters. Unfortunately it's not quarters and it is going to take another year at least to get everything completed and but we're committed to it. That's the thing we see clearly what we can be down the road, and we're working hard to execute and achieve those targets.

MacMurray Whale: Cespira is all the interaction with Weichai through the JV?

Dan Sceli: Yes.

MacMurray Whale: So when you talk about a bringing in a second OEM, presumably that's not Weichai?

Dan Sceli: Correct.

MacMurray Whale: And is the second OEM preference North America, there's nothing precluding one to be in another one in Europe?

Dan Sceli: No. It's not.

MacMurray Whale: And then just lastly on, you talked somewhat already about the hydrogen infrastructure, but I'm just taking a big step backward. When you look at your experience in Gaius carbon fuels, where are we in that process on the infrastructure side? Are we is it 10 years ago, 15 years ago, or is it like five years? Like, where I'm just trying to get a handle on, even if you see continued work on the engine side, it's the infrastructure that's really an issue.

So any comments on where you would sort of benchmark us in terms of that?

Dan Sceli: I think we've got a couple of things happening here.

I think we've got an industry that needs to get to critical mass in the production of and the infrastructure to supply and deliver hydrogen and other gaseous fuels.

I think that we are well established on the LNG and CNG side, CNG in North America, LNG in Europe.

For hydrogen critical mass is probably further out.

I mean everything I'm reading that tells me that it's further out than I would like, it could be seven, eight years out before we start getting some critical mass.

At the end of the day, total cost of ownership is going to drive the market and the cost of hydrogen today is still far too high to make a lot of sense. And it is not any different than battery electric or any other system.

It's all about critical mass. And once it's achieved, I think we're going to be fine.

It's a matter of how quickly we can get there. And each country's got its own plans for investments in that, and the markets have their plans.

It's -- I wish I had a crystal ball, but we still believe in it.

I think the markets still believe in it.

It's just a timing issue.

MacMurray Whale: Okay. And do you, sorry, last one, if I can just jump one more time. Given that, given the differences in the countries and given how important it's for the JV is getting a second OEM in North America aligned with that?

Dan Sceli: I think we want a -- I'll call it a third OEM in North America, not a second.

I mean second is critical.

We've got to get the third.

I think we're going to see the markets develop differently. Today legislation in Europe is working in our favor, whereas in the U.S. there's work to be done on the legislative front to make these solutions acceptable.

And I think we're going to see, you know with the recent election, I think we're going to see some wiggle room coming on that side in the U.S. and then you've got China, China is still the largest market.

I think there's 150,000 trucks sold this year on LNG in China.

It's a massive market. And you know while we're frustrated about the Weichai situation today, it's still a market that demands attention.

Operator: Our next question comes from Jeff Osborne with TD Cowen.

Jeff Osborne: Just a couple quick ones on my side. You mentioned the pickup in the delayed OEM customer, they're in Italy.

Can you just characterize that or are we half of where we were at normalized run rate before the inventory builds or any perspective on the improvement?

Dan Sceli: Yes. I'm trying to think of exactly how to answer that. The, I think what you're asking me is the volume picking up from the delay we had at the beginning of the year due to the inventory buildup?

Jeff Osborne: Yes, exactly.

If they were running a hundred cars a quarter in the past or a hundred a week and did it go down to 20 and you're back up to 50? I'm just trying to get a sense of the inflection for that customer given it was --

Dan Sceli: No. I don't have the exact number off the tip of my tongue, but I think we're more than halfway back.

Bill Larkin: Yes.

I think, you know we've substantially recovered since I call it the first half of the year. And I would say we're more at a normal run rate for that customer in delivering kits.

Jeff Osborne: And maybe just to follow-up on a prior answer you gave about the recovery in the light duty market.

Can you be more specific as to which countries you're seeing that? Is that in Italy itself, where you have a strong presence or Eastern Europe or South America? Any perspective there would be helpful.

Dan Sceli: I think a lot of it's in Europe for principally the LPG markets, that's where we're seeing a lot of the pickup, when you look at, I see more of the emerging markets.

It's a lot more choppy because a lot of the emerging markets are driven by tenders. And so that can swing a quarter or a year by several million dollars depending on the timing of those tenders.

But we look at this quarter, a lot of it is just the sale of LPG systems within Europe mostly in Italy and Eastern Europe.

Jeff Osborne: And then just two other quick ones here on Cespira. Double clicking out beyond the second or third customer.

Is there anything operationally or sales integration wise that you would say? We'll characterize there the two biggest objectives over the next six months or so?

Dan Sceli: What we're actually structured with enough capacity on both the supply and assembly side that we can bring on second and third OEM right now and any addition, so we bring on a second OEM let's say tomorrow, theoretically, what we're kicking off is engine development program, and the revenues won't come in for a few years, it's not an instantaneous thing.

We have to tune the system to their engine.

And so, as a business, it is structured and ready to take on additional volume, whether it's with the current customer or additional customers.

So there's no roadblocks or speed bumps to get in the way of that, but we've got to get the development work done first.

Jeff Osborne: My last one maybe for Bill is just the cash needs going forward.

Is there a way you can quantify, I think you said it was Euro six for the inventory. There's sort of multiple pieces here at play. You're five months into a JV. There's still some restructuring left to do over the next year, it sounds like. Plus you have the one one-time inventory, Bill, but at the current run rate revenue, is there a way to think about like what normalized cash burn would be, and then how that can improve going forward?

Bill Larkin: We're trying to turn the tide on that and it's -- we're hitting it on all fronts in terms of cost reductions, trying to enhance our margins, trying to implement operational efficiencies, which also include inventory management, accounts receivable, as I mentioned fourth quarter we expect are working capital, the inventory to come back down to more work normalized levels, that'll help free up some cash during the quarter.

And it's about continue to improve upon that, and sustainability of trying to reduce our working capital. Really it's kind of operate more efficiently and to fund our operations.

So as of right now that's what we're focused on -- try to eliminate the cash burn.

Jeff Osborne: And to that point, I mean you had pretty sizable cash burn in a quarter relative to our expectations, but you chose not to use the ATM. Was that more a function of the stock price or just a expected or anticipated improvement in Q4?

Bill Larkin: Yes. It is just the ATM it just takes, I think, the ATM, we probably should put in place when we put the original shelf, when we filed the original shelf. And it is just, it is there, it is it's just to have, if there's an opportunity to shore up the balance sheets, we will leverage that.

But as of right now we have not issued any shares under the ATM.

Operator: That concludes today's question and answer session.

I'd like to turn the call back to Dan Sceli for closing remarks.

Dan Sceli: Well thank you very much everybody, for your participation.

As you can tell from our call today, we're very excited about the momentum and the progress we're making in right sizing and stabilizing this business.

We're excited about the future of our technology and its place in the alternative fuels. And we're going to continue to work very hard to ensure that we put in place the business processes to maintain the gains that we're getting.

Thank you very much.

Operator: This concludes today's conference call. Thank you for participating.

You may now disconnect.