

Westport Fuel Systems, Inc.(Q4)

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Corporate Speakers:

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

Participants:

- Eric Stine; Craig-Hallum Capital Group; Analyst
- Robert Brown; Lake Street Capital Markets; Analyst
- Christopher Dendrinis; RBC Capital Markets; Analyst

PRESENTATION

Operator: Good day. And thank you for standing by. Welcome to Westport's Q4 Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Ashley Nuell, Vice President of Investor Relations.

Ashley Nuell: Good morning, everyone. Welcome to Westport Fuel Systems' conference call regarding results for the fourth quarter and 2024 fiscal year. This call is being held to coincide with the press release containing Westport's financial results that were issued earlier today.

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 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 will turn the call over to you, Dan.

Daniel Sceli: Thanks, Ashley. Good morning, everyone. Earlier this morning, not only did we announce our 2024 fourth quarter and full year results, but we also announced an exciting transaction that would lead to the divestment of our light-duty business.

This proposed transaction is expected to enable Westport to become significantly stronger from a financial perspective and allow us to taper our focus on creating solutions

for hard to decarbonize segments of the long-haul heavy-duty transport and industrial space.

Given the excitement around this transaction, we have adjusted the flow of this call so we can focus our time on outlining the proposed transaction the potential that it offers Westport and its shareholders.

So today, following a few opening remarks from me, we'll kick the call off with Bill walking through the fourth quarter and year-end results.

And then I'll dive into the details of the transaction before we go to our question and answer period. Despite revenues for the year being down by 9% as compared to the previous year, primarily as a result of the HPDI revenue now sitting in Cespira, our dedication to our three key pillars, positioned us to deliver improvements across the board including in our gross profit and gross profit margins.

Our adjusted EBITDA and for one of the first times ever we delivered positive net cash from operations. I'm very proud of how Westport performed in the 2024 period and recognize we still have a lot of work in front of us. as we continue to evolve the company in 2025. I'll now hand the call over to Bill so he can provide some more information on the financial results. Bill?

Bill Larkin: Thank you, Dan. Moving on to our fourth quarter and year-end results. As expected, the transition of the heavy-duty OEM business and the Cespira impacted revenues for both the fourth quarter and full year 2024. This was partially offset by an increase in sales in our light-duty segment.

In the fourth quarter of 2024, we generated \$75.1 million in revenue. This is a 14% decrease compared to the prior year period. For the full year of 2024, revenue was \$302.3 million, a 9% decrease compared to the previous year.

In line with our key priority of improving operational excellence and reducing cost, we delivered improved margins in both the fourth quarter and full year ended December 31, 2024. Gross margin increased to \$14.3 million or 19% of revenue in Q4 of 2024. This is up from \$8 million or 9% of revenue in Q4 of 2023.

For the full year of 2024, gross margin increased to \$57.6 million or 19% of revenue. This is up from \$48.9 million or 15% of revenue for the full year of 2023. An increase in sales to establish European customers rather than emerging markets also helped to improve our margins.

We demonstrated continued improvements in our adjusted EBITDA metrics for both the fourth quarter and year ended December 31, 2024. For the quarter, we reported an adjusted EBITDA loss of \$1.8 million. This is significantly less than the adjusted EBITDA loss of \$10.9 million in the fourth quarter of 2023.

For the full year, we reported an adjusted EBITDA loss of \$11.2 million, this is a considerable improvement compared to an adjusted EBITDA loss of \$21.5 million for the full year of 2023. Regarding liquidity, our cash and cash equivalents at the end of 2024 were \$37.6 million as compared to \$54.9 million at the end of 2023.

The decrease was primarily driven by debt payments, partially offset by cash provided by our operating and investing activities. 2024 marked one of the first times Westport generated positive cash flow from operations. With net cash provided by operating activities of \$7.2 million.

The reduction in operating losses, along with an increase in cash collected from accounts receivable including the sale of Italian value-added tax receivables of \$5.9 million drove the improvement in cash provided by operating activities, which were partially offset by inventory related to our heavy-duty OEM and light-duty businesses.

Net cash provided by investing activities was \$4.5 million for the year, driven by proceeds from the sale of investments of \$39 million, primarily related to Cespira partially offset by purchases of property, plant and equipment of \$16.9 million and our capital contributions to Cespira of \$9.9 million.

Net cash used in financing activities was \$25.2 million in 2024. In January 2024, we obtained new term loan of \$3.8 million from UniCredit that has personal repayments starting in 2025.

During 2024, in addition to our scheduled principal payments on our term debt we pay in full of revolving credit facility with RBC with \$15.2 million was outstanding on this credit facility at the end of 2023. We closed this revolving financing facility with RBC in November of 2024.

As you read in our press release and financial results released this morning based on our projected capital expenditures, debt servicing obligations and operating cash requirements under our current business plan, we are projecting that our cash and cash equivalents will not be sufficient to fund our operations for the next 12 months.

This morning, we also announced the sale of our light-duty business, which will strengthen our balance sheet. In addition, we plan to continue driving our cost reduction initiative. We have made many positive changes throughout 2024 including improvements in margin and adjusted EBITDA, as I reviewed earlier.

We believe this transaction leads the business in the right direction while allowing us to focus through with our commitment to strengthening the balance sheet and developing the HPDI and High-Pressure Controls and Systems segments. With that, I will pass the call back to Dan, who is going to walk through our divestiture announcement. Dan?

Daniel Sceli: Yes. Thank you, Bill. So this morning, Westport announced that it has entered into an agreement to divest its light duty business, which includes the light-duty OEM business, delayed OEM and independent aftermarket businesses.

In addition to significantly strengthening our balance sheet, as Bill mentioned, the proposed transaction simplifies our competitive strategy and streamlines our operations, allowing Westport to focus on HPDI technology in our Cespira joint venture and on our High-Pressure Controls and Systems business, where we see the strongest opportunities for growth. The transaction is valued at \$73.1 million or EUR 67.7 million, with the potential for an incremental \$6.5 million or EUR 6 million to be paid in earn-outs if certain conditions are met.

We anticipate closing the transaction by the end of Q2 2025, subject to the receipt of shareholder approval and other customary closing conditions. The transaction significantly improves our financial position and moving forward, we are committed to maintaining a stronger balance sheet.

The proposed transaction would bring forward more cash today than we anticipated under the light-duty business' five-year cash flow projections and allows us to fund near-term organic growth opportunities for both Cespira and the High Pressure Control and Systems segment.

It also enables us to consider bolt-on acquisitions. Finally, post transaction, our organization will be much smaller and more focused.

We will intend to align the cost structure with that of a smaller, more efficient organization. The resurgence of natural gas and renewable natural gas globally provides a market opportunity for Westport, particularly in North America, where natural gas infrastructure is abundant and RNG production is growing.

In addition, we believe that hydrogen will play a role in hard to decarbonize mobile applications long-term. Both Cespira and our High-Pressure Controls and Systems segment have products and technologies enabling the use of lower carbon fuels today to address decarbonization with net 0 and low carbon fuels, while also having an affordable solution when zero-carbon hydrogen becomes more available.

With this announcement, our goal is to revert back to our roots and become a more focused organization. Westport has 30 years of experience delivering component solutions and developing HPDI technologies.

At its core, Westport is a clean tech innovation company that provides OEMs with simplified solutions to decarbonize challenging segments of the heavy-duty transport and industrial markets, utilizing a variety of alternative fuels. Through Cespira, the HPDI fuel system does the on engine work, while our High-Pressure Controls and Systems segment produced products do the off-engine work.

As our global population continues to grow, transportation of goods remains critically important. The global heavy-duty truck market is expected to reach almost 2 million new trucks on the road in 2025.

As this segment grows, providing solutions to enable emission reductions is critical. Despite technological advancements, decarbonizing long-haul heavy-duty transport remains a challenge with substantial reductions in CO2 emissions still to be realized.

In fact, in Europe, the technology currently making the largest impact on heavy-duty, long-haul trucking GHG emissions are natural gas and biogas fuel internal combustion engines with HPDI leading the way.

While OEMs have explored multiple alternatives, widespread adoption has been limited, while natural gas and biogas fueled internal combustion engines have seen modest adoption.

Such adoption nevertheless, eclipses the adoption of any other carbon mitigating solutions. In addition, fleet operators are prioritizing cost effectiveness and total cost of ownership with emissions often taking a secondary role.

Therefore, for solutions to gain traction, they must maintain performance and be cost-effective. Hydrogen is recognized as a solution for the long-haul applications long-term. Meanwhile, demand continues to grow for low and zero carbon alternatives in hard-to-decarbonize applications such as heavy-duty trucking.

To address these challenges, Westport through Cespira is advancing fuel-agnostic heavy-duty transport related technologies. Growing its natural gas and biogas solutions today while laying the groundwork for hydrogen adoption in the future. The HPDI fuel system is the most affordable, commercially viable option that does not compromise on performance and that can deliver net 0 carbon emissions and heavy-duty transport.

As additional hard to decarbonize applications emerge in the transport sector, High-Pressure Systems and Controls will be needed regardless of the powertrain and complement the transition from natural gas to renewables to hydrogen.

Our High-Pressure Controls and System business designs, develops and produces and sells components for transportation and industrial applications.

Development over the last five years is focused on the hydrogen market but with recent growth in CNG, we intend to leverage our high-pressure expertise and grow the CNG product portfolio, providing effective solutions for decarbonization by utilizing alternative fuels today while advancing zero-emissions hydrogen solutions for the future with preference to those serving heavy-duty off-road and industrial applications.

We plan to combine our controls capability direct with our tank valves, regulators and pressure relief devices moving us toward a system-based solution. This transition is

planned to include the advancement of our product portfolio and additional CNG applications, leveraging the capabilities in our High-Pressure Controls and Systems business to shorten the timeline to enter the North American market with a product offering that can run on RNG today and hydrogen in the future.

As we look to the future, Westport looks to expand its addressable market, playing a larger part of the ecosystem in mobility and industrial space that isn't easily electrified. In closing, first, thank you to everyone who joined the earnings call today. Your continued support is invaluable to us.

We are excited about Westport's future, and we want to move through 2025 with purpose, creating value for our shareholders and cultivating opportunities to grow as a company.

We believe that shifting our focus to our HPDI and our High-Pressure Controls and Systems segments, will provide us with the best possible future. We understand that a lot is proposed to be changing and with change comes hard work, but we're keen to embrace. Thank you again for joining us today.

QUESTIONS AND ANSWERS

Operator: (Operator Instructions) Our first question comes from Eric Stine from Craig-Hallum Capital Group.

Eric Stine: So maybe just starting with HPDI. I know you don't break out units, but clearly a step-up in revenues in Q4.

So maybe if you could just, from a high level, talk about kind of unit trends that you saw in the quarter reasons for that? And then any detail you can give on expectations, whether it's units or growth for '25.

Bill Larkin: Sure, sure. Well certainly, we did see Q4 volumes go up with our OEM customer increasing production builds. And we're going to see those carrying on through into 2025. So what we're seeing is the marketplace adopting this technology. It's starting to get its legs underneath it.

Of course, we're dealing with a global market and the plan all along has been that this business would grow over the first two, three, four years, and it's in fact doing that. So we're hitting the plan versus production volumes, and we feel very good about where it's headed.

Eric Stine: Got it. And then maybe just an update, sticking with HPDI. I know that you've certainly expressed confidence in past calls and investor outreach on additional OEMs. I know that, that is a mandate of the joint venture and its partners. Where do things stand there?

Daniel Sceli: Well the efforts to bring in other OEMs continues hard. I'm actually sitting in a foreign country right now walking -- just coming out of meetings with additional OEMs working at it. And as you know we're not allowed to use their names they don't like that very much.

But that's, in fact, where I am right now. So those efforts are picking up steam. I think the biggest thing that we should be watching is this pendulum shift in the natural gas world, right?

I think that we're seeing a world that's swinging back from electrify everything or fuel cells for everything. We're feeling the weight of that coming. And so the commercial discussions with other OEMs are happening and continuing to pick up pace.

Eric Stine: Got it. Got it. And then maybe just -- I'll sneak in one more and then turn it over, just on the divestiture. Can you just remind me how much debt is tied to that light-duty business? I sense that it's a decent amount, but if you could just kind of dial that piece in for us that you will no longer have, that would be helpful.

Bill Larkin: Yes. Essentially, all the debt, except for approximately \$7 million is related to the light-duty business. So you're looking on --

Eric Stine: That's gone, right? I mean that will be on?

Bill Larkin: Yes. Yes. So it will just be -- the EDC debt remains with the business with us.

Operator: Our next question comes from the line of Rob Brown from Lake Street Capital Markets.

Robert Brown: Just the last point, your sale price of \$73 million is sort of net of everything, and then the debt will -- that portion of that will be gone. So your sort of enterprise value of the whole was over, I guess, over \$100 million, is that right?

Bill Larkin: Well you're going to offset that against the cash on the other side.

Robert Brown: Okay. Okay. So you'll [net] after the debt. Got it. And then maybe on the strategy -- kind of the strategy of the business going forward.

What's sort of the revenue rate of the business that you retain? And I know you laid out a number of the components that you look to grow, but maybe a sense of how you approach that market and how long it takes to get those products more into the natural gas side as well as the hydrogen and just maybe sort of a sense of the strategy of the ongoing --

Daniel Sceli: The answer is really two different buckets. Obviously the HPDI or Cespira bucket. We're on a glide path of increasing volumes per plan that were built into this business to start it up, and those are going to continue to go at that pace.

Obviously landing another OEM doesn't give us immediate revenue bump because any OEM we land will go through the development cycle, but it does get it gives a commitment to the technology.

The other piece of our business remaining is the High-Pressure Controls and Systems. And the growth that we have been seeing over the last year has all been hydrogen-based components. We won a significant amount of new business. But the production launches for most of that business is two, three years down the road.

What we're doing now recognizing what's happened in the marketplace, we're going to be pivoting hard, we are pivoting hard to go and create opportunities for those same types of pressure control components and systems in the natural gas market. So we see a huge swing towards the compressed natural gases in North America.

And it's basically the same technology that we use for the hydrogen controls, right? So what our plan is, as well where the programs will come down the road for hydrogen, we need to be selling into the CNG systems now and that's what we're pivoting to do.

I don't have any specific timeline to talk to when that business is going to start rolling in. It's an initiative that we've pivoted to because we've listened to the market. And of course, some investors have brought it up. For sure, it's a huge opportunity, we believe, in North America that we're going to take advantage of.

Operator: (Operator Instructions) Our next question comes from the line of Chris Dendrin from RBC Capital Markets.

Christopher Dendrinis: Congratulations on the transaction. I guess maybe to start, just going back to the strategy, and I think you all had mentioned that M&A could be a component of this. And so could you maybe just talk about what types of things you would be considering?

And is there -- is it the U.S. or North America that you're looking to build a bigger presence in? Or could this be something that's global in scale, just help us flush that thought process out a little bit.

Daniel Sceli: Sure, sure. Our strategy really is looking to take the controls that we have the high-pressure controls and building it out into a full system capability. So we'll be looking at potential opportunities to, in fact, do that.

We think that the larger immediate opportunity is definitely in North America for that, but it is a global business. There's compressed natural gas is used all over the world. So - - but we're going to be looking to build out that business to be shifted from being a components play to a systems play.

We do have our technology capabilities for the full engine control system. So combine that with the pressure controls and there's going to be some opportunities in the market to build that out.

Christopher Dendrinis: Got it. And then I guess maybe from an operational standpoint, do you have the R&D capabilities in-house to pursue that today? Or is this going to be a piece of the story where you're shrinking some of the, I guess, call it, employee footprint with the sale, but then looking to add new employees in these kind of growth areas.

Daniel Sceli: Sure. Sure. The high-pressure controls is an R&D and engineering group completely separate from the light-duty business in Europe.

It's located in Cambridge, Ontario in North America and just outside of Toronto. And they are fully equipped to operate independently and build out this -- from a technical perspective, build out this business.

Operator: Thank you. At this time I would now like to turn the conference back over to Dan Sceli, CEO, for closing remarks.

Daniel Sceli: Great. Thank you very much. Well again, thank you to everyone joining the call today, and appreciate the good questions. I know we'll have further discussions, and we are very excited about our future. We're going to continue to stay very focused managing this business with discipline and excellence.

That's one of the biggest things that I think we can look back on is shifting the culture to a very disciplined organization so that as we make strategic decisions, as we execute operationally, we're doing it in a very professional way. And we're going to manage our costs very, very, very tightly and not get out of control on spending.

So I'm proud to say that we're a well-run business with a team that's completely motivated to run out this strategy and provide a great future for the shareholders. So thank you very much.

Operator: Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.