

Westport Fuel Systems, Inc. (Q1 2025)
May 14, 2025

Corporate Speakers:

- Daniel 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 Capital Group; Analyst
- Robert Brown; Lake Street Capital Markets; Analyst

PRESENTATION

Operator^ Good morning, everyone. Welcome to Westport Fuel Systems' Conference Call regarding its first quarter 2025 Financial and Operational Results. This call is being held to coincide with the press release containing Westport's financial results that were issued yesterday after market close. On today's call speaking on behalf of Westport is Chief Executive Officer and Director Daniel 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 any 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'll turn the call over to you, Dan.

Daniel Sceli^ Thank you, Ashley. And good morning, everyone. We continue to make meaningful progress in transforming Westport and sharpening our strategic focus. Our priorities do remain clear: driving success through Cespira, our HPDI joint venture with Volvo, pursuing operational excellence by streamlining operations and reducing costs, and positioning Westport as a leader in the shift to alternative fuels. These three pillars are guiding us towards a stronger future. In Q1 2025, our efforts translated into measurable results.

Reported revenue was \$71 million for the quarter. In addition, Cespira generated \$16.7 million in revenue, which isn't reflected in our top line due to the equity method of accounting. When adjusting for our 55% ownership share, total revenue would have exceeded \$80 million, higher than the \$77.6 million reported in Q1 2024. Net loss improved significantly to \$2.5 million from a net loss of \$13.6 million in Q1 2024. Gross profit rose by \$3.5 million, while operating expenditures dropped by \$8 million. Adjusted EBITDA also showed marked improvement year-over-year.

At the end of Q1, we also announced the proposed sale of our light-duty business, through which I aim to align Westport more with the hardest to decarbonize applications – primarily long haul and heavy-duty transport. Our HPDI and high-pressure technologies offer a clear path forward in these segments. This transaction is expected to deliver immediate cash proceeds to strengthen our balance sheet and fuel growth in both Cespira and our high-pressure controls and systems business. This is an exciting time to be doing this.

It is clear the market recognizes that the internal combustion engine utilizing alternative fuels will be instrumental in decarbonizing long-haul heavy-duty transport. And natural gas is no longer viewed as a bridge to hydrogen, but rather is the foundation of the future. At our core, we are a clean-tech innovation company positioned to help drive this change. Through Cespira, the HPDI fuel system does the on-engine work to our high-pressure controls and systems business where our components do the off-engine work. We are providing OEMs with simplified solutions to decarbonize.

As you know we welcomed Carlos Gonzalez as President of Cespira back in April. Carlos is already fully engaged and leading Cespira into its future of growth and success. As stated before, Carlos comes to Cespira with many years of Tier one supplier experience and connections. Earlier this month, we were pleased to see Volvo Trucks highlight the success they achieved with their gas-powered solution, using Cespira's HPDI technology. In 2024, sales increased by more than 25%, and we saw demand continue to grow into the first quarter of 2025. Sweden, Norway, Netherlands, Spain and the U.K. have been the key markets and we are also excited to see increased interest from the Indian market for this solution.

We continue to do things to right size the business and cut costs where we can. In Q1, gross margin improved significantly compared to last quarter as well as an increase in efficiencies partly evidenced through the material reduction in operating expenditures.

As we mentioned last quarter, we are still charging ahead with the sale of Westport's light duty business. Once we close this deal, we will have the liquidity, and therefore, the opportunity to further rationalize our costs. We will continue to remain diligent when it comes to cost 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's 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.

Over the last several months, we have addressed that there is a slowdown in hydrogen infrastructure development, which is leading to a slower adoption of automotive and industrial applications powered by hydrogen. We have also presented the solutions that Westport can bring to fruition today, specifically related to natural gas applications. While we remain focused on scaling our alternative fuel solutions including LNG, CNG and RNG and hydrogen systems, we are matching the cleanest gaseous fuels with the most efficient engine technologies.

We are committed to delivering practical, commercially viable low-carbon solutions today and providing sustainable high-performance solutions that help our customers achieve their goals now and for years to come.

Westport is focused on its future and the proposed divestment of our light-duty business will lead us to what's next. The transaction allows Westport to significantly strengthen its financial perspective and taper our focus on creating solutions for hard-to-decarbonize segments of the long-haul heavy duty transport and industrial space.

In the evolving landscape of sustainable transportation, Cespira and Westport stand at the forefront, redefining what's possible with internal combustion engines. This commitment to innovation has led our teams to the latest breakthrough, a CNG HPDI solution, running on 700 bar storage without a compressor. This advancement not only enhances performance, but also expands the horizons for cleaner fuel alternatives.

Successfully operating at pressures up to 600 bar, the HPDI fuel system demonstrated normal operation even with a 5% to 10% hydrogen blend by volume. This innovation opens up new decarbonization pathways, especially in regions where CNG is more accessible than LNG.

Developed in collaboration with GFI, our high-pressure controls and systems team, this project exemplifies our commitment to innovation and sustainability.

Speaking to our GFI brand or High-Pressure Controls and Systems business, we are excited about the upcoming completion of our new hydrogen innovation center and manufacturing facility located in China. Production at the facility is anticipated to come online later this year, and we'll focus on delivering the Chinese market.

Westport's GFI branded hydrogen fuel system components have had a strong presence in the Chinese marketplace for over 10 years, supporting both fuel cell and internal combustion engine applications that use hydrogen fuel. Currently, China represents approximately half of our high-pressure controls and systems revenue.

I'll now hand the call over to Bill so he can provide some more information on the financial results. Bill?

Bill Larkin^ Thanks Dan, and good morning to everyone. Moving on to our first quarter 2025 results. We reported \$71 million in revenue for the quarter, which is a 9% decrease compared to the same period last year. As expected, the transition of the heavy-duty OEM business into Cespira shifted revenue to the JV in Q1 of '25 as we are accounting for the Cespira JV under the equity method of accounting. This impact to our reported revenue was partially offset by an increase in sales in our light-duty segment. We continue to deliver improved margins.

In Q1 of '25, gross margin increased to \$15.2 million or 21% of revenue. This is up from \$11.7 million or 15% of revenue in Q1 of '24. This improvement was driven by sales mix with higher OEM and DOEM sales, plus we are seeing the benefits of our cost reduction initiatives. Also we had significant reduction in our Q1 2025 operating costs, where R&D and SG&A expenses declined by \$8 million compared to the prior year period. The reduction in operating expenses for Q1 '25 is a combination of transition in heavy-duty OEM business Cespira which account for approximately \$5 million reduction and continuing our disciplined approach to cost reductions and operational efficiency.

For Q1 '25, we generated operating income of \$1.7 million compared to operating loss of \$12.5 million in the prior year period, which is a \$14.2 million improvement. We also demonstrated continued improvement in our adjusted EBITDA for the quarter ended March 31, 2025. Reporting adjusted EBITDA of nil, which is a significant improvement over the reported adjusted EBITDA loss of \$6.6 million in Q1 of '24.

Our light-duty revenue for Q1 '25 was \$64.2 million, whereas compared to \$63.3 million for Q1 '24. This increase was primarily driven by an increase in sales in our Light-Duty OEM as a result of the Euro six program an increase in delayed OEM business as compared to Q1 of '24, where we saw a significant decline in sales because of an inventory build within our key delayed OEM customer. Gross margin in our light-duty business increased in the quarter to \$14 million or 22% of revenue as compared to \$12.4 million or 20% of revenue in Q1 of '24.

This improvement 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 and an increase in sales volumes. High Pressure Control & Systems revenues for Q1 '25 was \$1.4 million. This is a decrease as compared to \$2.4 million for Q1 '24. The decline was primarily driven by a slowdown in the hydrogen industry. Gross margin decreased in the quarter to \$200,000 or 14% of revenue as compared to \$400,000 or 17% of revenue in Q1 '24.

This decrease is primarily driven by lower sales volumes, therefore, increasing the pre-unit manufacturing costs of the components in the quarter. Heavy-duty OEM revenue for the first quarter of '25 was \$5.4 million. The revenue decrease was compared to the same period last year was the result of the transfer and continuation of business in Cespira. Revenue earned in the first quarter '25 relates to our transitional services agreement with Cespira, which is expected to be in place until mid-2025. Gross margin in our heavy-duty OEM business in the first quarter of '25 was \$1 million or 19% of revenue compared to negative \$1.1 million or negative 9% of revenue in Q1 of '24.

Gross margin in Q1 '25 was positively impacted by realizing \$900,000 in credits from component suppliers for inventory sold during the quarter. Cespira generated \$16.7 million in Q1 of '25 in the prior year, heavy-duty OEM segment, which at that time included our HPI business had revenues of \$11.9 million. This is primarily driven by an increase in HPDI fuel systems sold in the quarter. Gross profit for Cespira was \$500,000 for the three months ended March 31, 2025.

In the prior year, the heavy-duty OEM segment had negative \$1.1 million in gross profit. The increase in gross profit was primarily driven by the increase in sales lines compared to the prior year and reductions in manufacturing costs.

Regarding liquidity, our cash and cash equivalents at March 31, 2025, was \$32.6 million as compared to \$37.6 million at December 31, 2024.

For Q1 2025, net cash used in operating activities was \$4.9 million. Cash used in operating activities were primarily driven by \$8.1 million increase in net working capital specifically in inventory and accounts receivable related to our light-duty business. Net cash provided by investment activities was \$2.7 million for the quarter, driven by the collection, a total of \$11.4 million from Cummins for a holdback receivable, of which \$10.5 million was allocated to the holdback and the remainder was allocated to interest.

We purchased capital assets of \$3.1 million, mostly for European operations. And finally, we contributed \$4.7 million into Cespira in the quarter representing approximately a quarter of our anticipated 2025 cash contributions to Cespira. Net cash used in financing activities was \$3.9 million in Q1 of 2025, this due to payments on our long-term credit facilities. This is compared to \$17.7 million in the prior year period as we had higher payments related to the revolving financing facility that was closed in November of '24. We've had a strong start to 2025 and truly believe that the proposed divestiture transaction will shift our business in the right direction while allowing us to follow through our commitment to strengthening the balance sheet as well as continuing to develop the HPDI and high-pressure controls and systems segments.

With that, I'll pass the call back to Dan.

Daniel Sceli^ Thank you, Bill. To recap, the proposed light-duty transaction allows for the company to return to its strategic routes with a focus on providing solutions for hard-to-decarbonize mobility and industrial applications. Significantly strengthen the balance sheet and provide essential proceeds to focus on strategic growth opportunities and continued leadership in fuel system solutions for clean low-carbon fuels. Thank you, to everyone who joined the earnings call today. Your continued support is immensely important 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 high-pressure controls and systems segment will provide us with the best possible future.

Finally, we are holding a virtual Annual General Meeting tomorrow morning, 7:00 a.m. Pacific Time, 10:00 a.m. Eastern Time and encourage current and prospective investors to join us. The details for the call can be found on our website. Thank you again for joining us today.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from the line of Amit Dayal from H.C. Wainwright.

Amit Dayal^ Hey good morning Dan, thank you for taking my question. Just to clarify on the divestiture. Is this closing in 2Q? Or has it already been closed?

Daniel Sceli^ Closing in Q2.

Amit Dayal^ Okay. Understood. And that is when the cash proceeds, et cetera, will show up in the Q2 financials? Or will we see those in the third quarter financials?

Bill Larkin^ No. I expect that it should -- we expect to close by the end of the quarter so therefore, we expect the cash to show up in our June 30 balance sheet when we present that.

Amit Dayal^ Okay. Understood. Then sort of with respect to Cespira margins going forward, any color on what the path to higher margins looks like? Is it just more volume that will drive this? Or are there any other factors that we should keep in mind?

Daniel Sceli^ Well getting Cespira profitable is a combination of things. Volume is the number1 key to that business, and we're on a projected growth path. Also the efforts of the team to reduce their costs, to become more efficient and manage the supply base better. So as in many businesses, it's a multifaceted attack to profitability.

Amit Dayal^ Understood. Then last quarter, you mentioned the CNG related opportunity in North America. I know it's still sort of early in your transition phase -- but any progress on that front? And any new developments that we should be aware of?

Daniel Sceli^ Well so I actually just come back from California from the Clean Truck Show and sat through all of the discussion panels, the presentations, talked to a lot of customers on the floor. I can tell you, the pendulum is swinging hard back to the natural gases. I think the world has recognized that the hydrogen solutions are further off than anyone would like. That's a reality. So the combination of that and the new administration in the U.S., pushing for natural gas. I think we're going to see the pendulum swing even further. I think the opportunities are going to start rolling in fairly quickly. And on the back of that, we still have a very strong liquid natural gas market in Europe that's starting to pick up volume. You heard me talk about a 25% growth on HPDI. It's on an LNG in Europe. And I think that we're all going to be participating in a natural gas market that is a foundational market, not a bridge to hydrogen.

Amit Dayal^ Understood. With respect to China, is China going to be a focus for you as well in the new emerging Westport?

Daniel Sceli^ Yes, absolutely. I mean China has been an important piece of our business. It's been 50% of our high-pressure components business for some time. That GFI brand is

very much a world leader. In China and specifically for those markets, we are seeing natural gas accelerate in China. Hydrogen is still being developed in China. We're developing lots of products with customers there. So yes, China is a very important cog in our wheel that we're going to continue to develop.

Operator^ One moment for our next question. Our next question comes from the line of Eric Steine from Craig-Hallum Capital Group.

Eric Steine^ Well you just kind of touched on it, everything going on out in California a couple of weeks ago, and I did talk to Volvo, and it sounds to me like they do not have a natural gas product in North America, which would sure seem to be an opportunity for Westport down the road, but that begs the question. You mentioned the development of a CNG HPDI solution that you have done, but how long if Volvo worked to make that decision to bring it to North America because their customers clearly want it, how long would that take from a development perspective?

Daniel Sceli^ Sure. So you know we talked a little bit about this when we were together in California. But engine development and whether you're talking light-duty or heavy-duty engine development is a fairly long cycle. The biggest part of that cycle always ends up being the certification process where you have to accumulate so many miles or kilometers in testing, and that's a big time lag. The typical engine development for heavy-duty truck is about 4 years. And the work that we've been doing, most -- it's all been quite recent, demonstrating that we can have CNG and even CNG hydrogen blends run on the same HPDI system is the first step in hoping to get Volvo to bring a CNG engine to North America. But there's other customers as well right? Our solution can fit on any platform. And as we've talked about for the last year, the Cespira joint venture was structured in its mandate to have multiple OEMs. It was never structured to be simply a Volvo joint venture. It was structured to build out and become an independent business supplying all the OEMs.

Eric Steine^ Got it. You touched on your own development, and you said kind of -- well recent -- but I'm just curious, I mean is that in response to requests from OEMs? Is that more proactive on your part just to show that -- or at least get a jump on it. So maybe it can shorten that long development cycle to some extent? Or is it a mix of both?

Daniel Sceli^ Well it's actually very proactive on our part trying to pull the market. I mean HPDI was born and raised on pulling the market to it, and we intend to continue to do that type of activity while the OEMs evaluate the business cases for each of their regions. I think that the head start that we have would help any OEM that chooses to move forward. One of the things I think you probably heard it as well in California, the market only has one solution today and they're looking for alternative solutions.

Eric Steine^ Yes, absolutely. Okay. So maybe just last one from me. Just on the divestiture. Can you just remind us of the steps that are needed. I mean clearly, you've got a high level of confidence that, that closes, but maybe things to look for between now and the end of the second quarter?

Daniel Sceli^ Sure. I mean we're down to the -- it's a countdown now. All the work has been done. It's a transition time to the actual close itself. So all the work has been done. It's just getting to the close date here in Q2 and we anticipate no issues to block that.

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

Robert Brown^ Just want to get a sense on the high-pressure controls business, what you sort of think that runs at this year and kind of where you see some of the growth opportunities in that segment?

Bill Larkin^ Sure. If you go back a couple of quarters to the reporting we were doing on high pressures, we were winning new contracts on components for the hydrogen sector at quite a rate, we were -- I think we had won \$70 million or \$80 million in new contracts. Those contracts are still moving forward. They've just delayed as most hydrogen projects around the world are slowing down. We still have that book of business coming on over the next few years. And in the meantime we've been winning more. We continue to, we can't even keep up with the number of quotes we're dealing with in -- for hydrogen contracts. The thing that we're also doing is we're trying to re-establish a pivot to take those same type of pressure control components into the CNG world. As CNGs here, as I talked about, the pendulum swinging, the CNG presence is going to grow dramatically. These components can run on CNG as well with slight modifications. And so our view of high-pressure controls is that it's a growth business. It's early in that growth swing, but it's coming. It's one of the reasons we're finalizing the plant in China because the market is pulling hard for us to be there for local supply of all those components.

Robert Brown^ Okay. Then on the Cespira business, you talked about nice growth 25% or better. Where is that coming from now in Europe in general, but specifically, where do you see the activity there? And what sort of the dynamics of the pickup?

Bill Larkin^ Sure. It is primarily in Europe and in those countries I mentioned in my earlier statements, Volvo is starting to market heavier. Volvo is starting to put their foot on the gas pedal, no pun intended, to build that market out. They're also looking at India as a beachhead. They've got trucks going to India. So the 25% growth that we're seeing was always actually built into the business plan to build out Cespira, and we anticipate to see continued growth.

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

Daniel Sceli^ Thank you. I'd like to thank everyone again for participating in our call. I hope you are going to share in our excitement on the future of Westport. I think we have re-established our positioning strategically to take advantage of what's happening in our markets. And we'll continue to drive for efficient well-run business. And again thank you very much.

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