

Westport Fuel Systems, Inc.(Q2 2025)

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Corporate Speakers:

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

Participants:

- Eric Stine; Craig-Hallum; Analyst
- Robert Brown; Lake Street Capital Markets; Analyst
- Sameer Joshi; HC Wainwright; Analyst
- Christopher Dendrinis; RBC Capital Markets; Analyst

PRESENTATION

Operator^ Thank you for standing by. And welcome to the Westport Fuel Systems Second Quarter 2025 Conference Call. (Operator Instructions)

As a reminder today's program is being recorded.

And now I'd like to introduce your host for today's program, Ashley Nuell Vice President of Investor Relations.

Please go ahead.

Ashley Nuell^ Good morning, everyone. Welcome to Westport Fuel Systems' conference call regarding its second quarter 2025 financial and operating results.

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

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.

Daniel Sceli^ Thank you, Ashley. And good morning, everyone.

We continue to make meaningful progress in transforming Westport and sharpening our strategic focus to achieve that transition.

In Q2 2025, our efforts translated into measurable results. Reported revenue was \$12.5 million for the quarter as compared to \$14.1 million in the same quarter of the prior year. Consolidated revenue including the Light-Duty segment, which was reported as discontinued operations during the quarter, totaled \$88.8 million as compared to \$83.4 million in the same period of 2024.

In addition, Cespira generated \$12 million in revenue during the quarter.

Finally, following quarter end, we made significant progress in advancing our strategic transformation this quarter, culminating in the recent successful divestiture of our Light-Duty segment. This transaction strengthens our balance sheet, and sharpens our strategic focus on high-impact opportunities in commercial transportation and industrial applications.

With the successful completion of the sale of the Light-Duty segment, Westport is taking the necessary steps to execute on a newly focused and integrated business strategy.

What sets Westport apart is our ability to deliver performance, cost efficiency and environmental benefits together.

Our company is well positioned with fuel-agnostic technologies that are already available in the market and designed to evolve alongside the industry's transition.

Our solutions allow customers to adopt net zero and low-carbon fuels today with a cost-effective pathway to hydrogen adoption as its availability increases.

In the short term, RNG represents a significant opportunity to reduce emissions in heavy-duty and off-road applications.

We're actively pursuing multiple growth opportunities that are economically compelling right now.

In addition, our IP portfolio is expected to provide a competitive advantage well into the future.

Further, the company recognizes the evolving macroeconomic environment and is positioning to capitalize on renewed market momentum, especially as it relates to the use of natural gas as a transport fuel.

Moving forward, Westport will be focused on the following key drivers: Cespira with its strategic market expansion and technology leadership in heavy-duty transportation; our High-Pressure Controls & Systems, which complement the energy transition regardless of the powertrain and a variety of financial initiatives. The company's goal for the Cespira business is to deliver demonstrated volume growth over the coming 12 months with a backdrop of renewed industry focus on CNG, LNG and RNG for heavy-duty transportation and favorable and more stable CNG, LNG and RNG fuel pricing economics.

Westport is also aiming to increase the OEM presence and related new market activity for Cespira. The opportunity for Cespira increases significantly through geographic expansion.

In North America, CNG remains a dominant choice for fleets seeking lower operating costs and reduced emissions. Actively looking to expand presence in these regions, we continue to drive innovation through the testing of a CNG HPDI solution.

With our High-Pressure Controls & Systems business, we are developing high-pressure components that are critical to performance and reliability.

As a reminder, we are selling into three primary markets: China, Europe and North America. Currently, China accounts for over 50% of Westport's revenue in this segment, almost exclusively focused on hydrogen component sales.

Supported by multilayered government support spanning from comprehensive national strategies to targeted regional incentives, funding mechanisms, infrastructure mandates and industry collaboration, the Chinese hydrogen market is anticipated to continue to drive growth for Westport.

To drive success in this market, we are opening a state-of-the-art hydrogen innovation center and manufacturing facility in China in late 2025. This pioneering facility will serve as a hub for research, development and collaboration to meet the increasing demand for hydrogen transportation solutions in the region. The new facility enables us to better serve local customers and partners, driving clean energy advancements in one of the world's largest economies.

Excitingly, as part of Westport's global restructuring, the company is relocating its European high-pressure controls & systems manufacturing operations to our existing technology center in Canada, aligning the manufacturing facility with our innovation hub in North America. This move enables flexibility in product design, increased speed to market and bolsters our commitment to delivering top-tier clean transportation solutions to global markets while also assessing potential expansion of CNG and RNG systems, creating incremental growth avenues that allow us to strategically refocus on the North American transportation market where the near-term focus has shifted away from hydrogen.

Our key focus going forward recognizes both the opportunities and challenges in overall market conditions.

We have already begun a strong internal process to review additional ways to maximize our economic benefit from this recent transaction for our stakeholders.

Our mission is to focus on growth and improving financial results along with capturing market share.

Our overall drive for market expansion and move towards generating positive cash flow may not be the smoothest path, but we believe we are uniquely positioned to take advantage of a more pragmatic moment globally where governments, commercial transport companies and industrial power providers require more affordable solutions than those that exist today. That said, in the near term, Cespira will continue to require cash contributions from its owners.

As a technology and innovation company connecting synergistic technologies to power a cleaner tomorrow, we are offering our customers the best value of ownership and environmental performance as they continue to prioritize the total equation. The heavy-duty truck market is growing globally, and natural gas is experiencing a revival, driven by affordability, abundant infrastructure and growing production.

In Europe, LNG and RNG adoption for trucking is rebounding sharply with LNG emerging as the preferred fuel due to its decarbonization potential and superior fuel economy.

In North America, CNG and RNG are gaining momentum as fleet operators encounter rising skepticism around electrification, citing much higher-than-expected energy costs and persistent hydrogen distribution challenges.

At the same time key regulations are shifting.

For example, California has paused or rolled back mandates like advanced clean fleet signaling greater flexibility for alternative fuels. CNG in particular, is emerging as a reliable and cost-effective solution offering fleets a stable and scalable pathway forward. Cespira's flagship LNG HPDI technology continues to gain strong traction, particularly in Europe, although we are also seeing fleets adopted technology in India, South America, Africa and East Asia.

With approximately 9,000 trucks currently on the platform delivered an impressive 25% year-over-year growth in 2024. The latest iteration featured in the new 500-horsepower Volvo FH Aero cab achieves fuel economy of 10 miles per gallon on diesel, far surpassing traditional spark ignited competitors that typically operate in the six miles per gallon range. This performance gap is cementing HPDI's reputation as the high-efficiency choice for long-haul transport applications.

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

Bill Larkin^ Thank you, Dan. And good morning.

Before going into specifics of the quarter, I want to highlight that in the second quarter, the Light-Duty business was accounted for as discontinued operations in the statements of operations and cash flows, while its related assets and liabilities were presented as held for sale resulted in the Light-Duty business being presented differently during the second quarter of 2025 than in the past. The prior year comparatives have been reclassified to the current period presentation. Accordingly, please see Note five in the financial statements for the assets, liabilities, revenues and expenses of the company's discontinued operations.

Also as a reminder, the Cespira JV was formed in June 2024.

So Q2 of 2024 results include one month with Cespira being accounted for under the equity method following the close of that transaction.

Moving into the details of our second quarter results, given we accounted for the Light-Duty business as part of continued operation -- discontinued operations, our consolidated revenue from continuing operations of \$12.5 million for the quarter does not include the \$76.4 million generated from the Light-Duty business in Q2 of 2025.

Including Light-Duty business revenue, Westport generated consolidated revenue of \$88.9 million in the quarter as compared to \$83.4 million in the same period last year.

In addition, Cespira generated \$12 million of revenue during Q2 of 2025. The \$12.5 million of consolidated revenue from continuing operations reported in the second quarter was 11% decrease from the \$14.1 million generated in the same period of last year. This is primarily driven by decreased sales volumes in our High-Pressure Controls & Systems and Heavy-Duty OEM business segments.

We demonstrated an improvement in adjusted EBITDA for the quarter ended June 30, 2025.

We reported adjusted EBITDA of negative \$1 million, compared to negative \$2 million reported for the same quarter of last year. This was achieved primarily through reduced operating expenses than Heavy-Duty OEM and corporate.

Specifically, operating expenses including R&D, sales and marketing and G&A were \$15.5 million in Q2 of 2025, compared to \$21.6 million in Q2 of 2024. This is a clear demonstration of the work we have done against our strategic initiatives to decrease cost.

We expect more reductions on a relative basis as we adjust to becoming a smaller organization after the sale of the Light-Duty business.

Our High-Pressure Controls & Systems revenue for the Q2 of 2025 was \$2.9 million, which was a decrease compared to \$3.6 million for Q2 of 2024, which was primarily driven by the slowdown in the hydrogen industry. Gross margin decreased in the quarter to \$100,000 or 3% of revenue as compared to \$1.1 million or 31% of revenue in Q2 of 2024. The decrease in gross margin was primarily driven by lower revenue and an increase in material costs in the quarter, we are moving our manufacturing operations from Italy to Canada and China in the third quarter of 2025 to be closer to our customers and to simplify our supply chain operations.

Heavy-Duty OEM revenue for the second quarter of 2025 was \$9.6 million. The Heavy-Duty OEM revenue decreased of \$900,000 as compared to the same period last year was a result of the reduction of our manufacturing support to Cespira.

Starting in Q3 of 2025, Cespira will operate without manufacturing support from Westport under the traditional service agreement. Gross margin in our Heavy-Duty OEM business in the second quarter of 2025 was \$700,000 or 7% of revenue compared to \$1.3 million and 12% of revenue in Q2 of 2024. Cespira generated revenue of \$12 million in Q2 of '25 as compared to \$4.1 million in the same period last year.

As I mentioned before, the Cespira JV was completed in June of 2024. Therefore, Cespira's Q2 '24 results represents only one month of activity. Gross profit for Cespira was negative \$1.9 million for the three months ended June 30, 2025.

In the same period of the prior year, Cespira reported \$200,000 in gross profit.

I want to reiterate that our second quarter results present our Light-Duty business as continued operations. That being said, I would like to briefly review the Light-Duty business performance during the period. Light-Duty business generated \$76.4 million of revenue with a gross profit of \$15.1 million or 20% of revenue.

As I previously mentioned, please refer to Note five of the financial statements for the assets, liabilities, revenues and expenses in the Light-Duty business that was divested in July of 2025.

Regarding liquidity, our cash and cash equivalents at June 30, 2025, were \$21.4 million, of which \$15.3 million was in the Light-Duty business and \$6.1 million in our remaining business.

Our balance sheet presents the \$6.1 million for our continuing operations. The decrease in cash during the three months ended June 30, 2025, was primarily driven by operating losses, funding of the Cespira joint venture purchases of fixed assets and debt repayments.

For Q2 of '25, net cash used in operating activities from continuing operations was \$5.6 million. The increase in net cash used in operating activities was primarily driven by a

significant increase in accounts receivable due from Cespira, the majority of which we anticipate receiving in the third quarter.

This is partially offset by a decrease in inventory related to the sale of the remaining HD OEM inventory to Cespira during the second quarter.

Net cash used in investing activities was \$5 million, compared to net cash provided by continuing operations of \$7.7 million in the same quarter in 2024. Net cash used in investing activities from continuing operations was primarily driven by capital contributions to Cespira of \$4.2 million and fixed asset purchases of \$800,000 during the three months ended June 30, 2025.

In the prior year period, we received proceeds of \$18.9 million from Volvo for the shares sold in Cespira.

Net cash used in financing activities from continuing operations was \$1 million in Q2 of 2025, which represents our quarterly principal payment on the outstanding loan from EDC.

Subsequent to the quarter on July 14, 2025, we entered into a short-term loan with the purchaser of the Light-Duty segment for \$5.8 million or EUR 5 million, along with subsequently repaid on July 29, 2025, in association with the close of the transaction. Debt remaining after divesting Light-Duty business will only consist of the EDC loan, which \$4.9 million was outstanding at June 30, 2025. Payment terms consist of \$1 million each quarter plus interest with the final payment in September of 2026.

Following the close of the transaction, we'll have additional cash spending that will be reflected in the third quarter including incremental funding for Cespira, transaction costs related to the close of Light-Duty sale, relocation costs related to our High-Pressure Controls & Systems move from Italy to Canada and restructuring costs. Together, these costs are expected to about \$15 million in the third quarter.

The sale of the Light-Duty business including Light-Duty OEM -- the light OEM, independent aftermarket electronics and fuel storage businesses. The sale provided \$62.5 million in net proceeds to be received as \$41.2 million in initial cash proceeds, \$8.5 million in deferred payments, which are expected to be received in September of 2025 and \$12.8 million in proceeds held in escrow. Net proceeds are after a deduction of net debt in the Light-Duty business and certain other closing costs. Further, up to \$3.8 million of potential earnouts are available if certain conditions are achieved in accordance with the terms and conditions of the sale and purchase agreement.

The transaction moves us forward in streamlining our operations and achieving certain financial goals with respect to our balance sheet. Further, the proceeds held in escrow will be released to us in four tranches with the first tranche to be received by the end of 2025 and the last payment in May of 2027. Purchase price adjustments may impact the final proceeds received from the purchaser and are customary in nature. Even though the

transaction proceeds are enabling Westport to significantly strengthen its balance sheet from the time of closing onwards, the going concern addressed in Note two of the interim financial statements is expected to remain in place at this time.

One last item before I turn it back to Dan, our previous base shelf prospectus being effective in May of 2023 expired in June of 2025.

We expect to file replacement to our preliminary short-form base shelf prospectus this month.

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

Daniel Sceli^ Thank you, Bill. To recap, the closing of the Light-Duty transaction enables Westport to return to its roots where it can focus on solutions, for hard to decarbonize mobility, and industrial applications and invest in growth. Needless to say, we are very excited about the company's future.

Thank you to everyone who joined the call today. Your continued support is immeasurably important to us.

We continue to move through 2025 with purpose to create value for our shareholders. Thank you again for joining us today.

QUESTIONS AND ANSWERS

Operator^ And our first question for today comes from the line of Eric Stine from Craig-Hallum.

Eric Stine^ So maybe first on HPDI, you mentioned activity outside of Europe, specifically India, South America and multiple locations in Asia.

Can you just provide more details there? I mean are these -- would you characterize these as trials? Are they volumes from Volvo in some of these new markets? Or how does that kind of play into your goal of adding additional OEMs going forward in Cespira?

Daniel Sceli^ Sure.

I think what we're seeing is Volvo is planting growth seeds in different markets. They've fully established HPDI in Europe. And now they're going out to other markets to begin that same process, whether it's in Chile and Peru or in India, we see them beginning to move around the globe with the technology to build market acceptance.

Eric Stine^ Got it. And then in this kind of dovetails with that, you mentioned that Westport developing the CNG HPDI version.

I guess, from the way it was worded, unclear if that was a Westport only development or the joint venture because I know that there is a view at some point that Volvo potentially brings HPDI to the U.S.?

Daniel Sceli^ Sure.

So what -- I mean HPDI on engine is solely part of Cespira. Their current off engine, i.e., the storage, the fuel storage and movement to the engine is in LNG.

We see the other markets starting to move and CNG is clearly one of the primary methods in North America, specifically in the U.S., there is a combination in Canada.

But what Westport is developing is the off-engine side of that, the storage and material handling to the HPDI system.

Eric Stine^ Okay.

So Westport only, I mean is that something that, that work -- if there are any revenues resulting from expenses, would that be in the High-Pressure Components & Systems business? Or what does that look like?

Daniel Sceli^ Yes. We'll be structuring that as a separate business somewhat. The high pressure control is a big part of that because to manage any compressed gases in these storage tanks, you need the high-pressure controls. The tank valves, the pressure controls, the safeties all of that kit is needed to manage those high-pressure tanks.

Eric Stine^ Okay. Maybe last one for me, and this, I guess, kind of plays into the view for additional OEMs for HPDI.

But I know that kind of the headlines and some of the market has cooled on hydrogen, but just curious, I mean are you seeing that is one of the drivers.

Is it people looking at natural gas? Is it the optionality of fuel for HPDI?

I mean how do you think that plays out?

Daniel Sceli^ Sure.

So I mean certainly, we see the hydrogen development continuing in China at a fast pace.

We've seen it slow down everywhere else.

But you hit the key point. HPDI is fuel agnostic.

And the on-engine system can run on any one of the fuels, hydrogen, all the natural gases. And so we see that -- so for instance, in North America, we see the pendulum is

swung and there's going to be a huge opportunity for natural gas expansion in the transportation -- the heavy transportation segment. And we want to participate in that.

We see that as a growth opportunity, and we're going to position ourselves to be part of it.

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

Robert Brown^ Just on the High-Pressure Controls business, the current run rate is this sort of a baseline that you can grow from? Or do you see some kind of continuing ins and outs here this year before things ramp?

Daniel Sceli^ It's a bumpy road right now.

I think we're in the middle of a, I'll call it, a bit of a pause as the new administration is setting up policies and regulations.

We see that everybody is watching carefully to see which direction it goes in North America.

What we -- and in China, we see the continued opportunities being pursued from a governmental level. They're driving a lot of the activities in the hydrogen world.

So it's a mixed bag for us.

One of the key things is to have better control of the manufacturing and development and linking the two by moving the manufacturing out of Italy for these components to Cambridge, our Ontario site. And then, of course, some of it's going to go to China. The China plant that we've been building is for China market only.

It's a localization strategy.

It's a cost reduction strategy to take part in what our customers are telling us is continued growth in that market.

Robert Brown^ Okay. Great. And then on the OpEx kind of run rate after things settle here.

I think you talked about it coming down, but what's kind of a good directional run rate for the OpEx going forward?

Daniel Sceli^ Yes. Sure.

So we still have -- as we've divested of Light-Duty, and the Light-Duty business commanded an awful lot of time attention and resources.

It was a very complex -- the breadth of the business was quite staggering for the size of it. And this will allow us to continue to rightsize our overhead, and focus our R&D on these growing natural gas markets.

Bill Larkin^ And then also, I think I'll add to that, Dan, is when you look at our R&D spend, it will be a progression.

I think we'll see pretty much the full reduction in 2026 because we got to get through the full year audit.

We got our audit fees, tax fees. There's a lot of outside services in relation to when we have the consolidated business that we're going to continue to incur through the rest of this year.

As we mentioned, we will start -- we are actually starting to rightsize the business, reduce costs where we can, and we will continue that well in the 2026.

So I think when you see kind of a full, what is a normalized run rate, we'll see that in 2026.

Daniel Sceli^ Yes. Yes, good point, Bill.

Operator^ And our next question comes from the line of Sameer Joshi from HC Wainwright.

Sameer Joshi^ Just sort of a clarification on the continuing operations revenue.

I think the first half revenue is around \$19.8 million versus \$12.5 million for the second quarter. That implies a \$7.3 million in the first quarter.

Is that sort of seasonality? Or is that lumpiness?

Or like how should we look at it as we model this in the coming quarters?

Daniel Sceli^ Yes.

What we're seeing is that outside of China, we're seeing a number of programs being slowed down.

One of them, Stellantis canceled their hydrogen program for their commercial vans.

So we have this -- what I talked about this pause we're seeing in the hydrogen world, it's on right now. And so the reduction is really the customers of ours slowing down and waiting to see what's going to happen in, for instance, North America versus what we're being told is going to happen in China.

Sameer Joshi^ Understood. And then just one on the transaction. The \$12.8 million that are in escrow, is there any conditionality to it? Or is this just a timed disbursement that you will get on those set dates without any conditions missed?

Daniel Sceli^ Bill, I'll let you take that.

Bill Larkin^ Yes. There's -- it's kind of customary that cover any potential undisclosed liabilities as part of the transaction, just things like that. A piece of it is going to be released this year, \$5.5 million is going to be released in -- at the end of January of '26, so that leaves about \$2.5 million after that.

So a big chunk of that holdback that's in escrow will be received by the end of January '26.

Sameer Joshi^ Got it. Understood. And then the \$3.8 million is pure earn-out based on some performance criteria?

Bill Larkin^ Correct. Yes, based on the specific items.

Sameer Joshi^ Yes. And then just one last one. You did mention the \$15 million amount in 3Q for all the sort of onetime relocation and transaction expenses.

But for the hydrogen innovation center, is there any additional CapEx in addition to this \$15 million, which includes other items that you would expect over the next few quarters?

Bill Larkin^ No. When the -- a big chunk of that is going to be is our Q3 contribution to the Cespira joint venture. That makes up a majority of that amount. And then we have some transaction-related costs. And then also the cost and related CapEx, most -- a big chunk of the CapEx has already been acquired, but there's still some remaining CapEx that we're going to have to purchase to support the relocation from Italy to both our facility in Cambridge and China.

So that's all inclusive within that amount in the \$15 million in the third quarter.

Sameer Joshi^ Yes.

I just wanted to ask one like a macro question.

We talked about the dynamics of the fields, the hydrogen stepping back, but natural gas still active, hydrogen active in China.

But we didn't talk about all the tariff and trade uncertainties between North America, U.S., Canada and China. Do you have a view on how it will play out and how it impacts Westport and your operations?

Daniel Sceli^ Sure.

We don't have any real direct impact from the tariffs. And for sure, one of the strategies is localization in China for what we sell in China.

So it's going to be protected that way.

But we have no direct tariff impacts.

They're more indirect when the overall economy is adjusting to tariffs, we might feel in general volume.

But no, there's no direct tariff impact for us.

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

Christopher Dendrinis^ I wanted to just ask about the Heavy-Duty business. You mentioned the Cespira transitional, I think revenues are in there. And to confirm, is that rolling off at the end of this coming quarter? And then is there any revenue, I guess, outside of that in that segment?

Bill Larkin^ So we actually consolidate as part of the really kind of the transition to a stand-alone to Cespira that was substantially completed in the second quarter. And so from third quarter and beyond, there will be very, very little revenue what we consider in the HD OEM business going forward.

Christopher Dendrinis^ Got it. And then maybe just on funding of Cespira going forward, and you mentioned a big chunk of that \$15 million this coming quarter is for that. Are there additional commitments that you all need to make going beyond 3Q? And just how should we think about that funding level going forward?

Daniel Sceli^ Yes. Sure. And I think we've mentioned on a number of the previous earnings calls, when we set up Cespira, it was going to be a 3-year build-out where there would be cash required from the parents to continue to build Cespira for the three years, and that will continue.

Operator^ And this does conclude the question and answer session of today's program.

I'd like to hand the program back to Dan for any further remarks.

Daniel Sceli^ All right.

Well thank you very much.

I appreciate the support.

I appreciate all the questions. And I wish everybody a good day.

Good-bye.

Operator^ Thank you, ladies and gentlemen, for your participation in today's conference.
This does conclude the program.

You may now disconnect. Good day.