Q1 2024 Earnings Call *(Corrected version)*

Event Details

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Company: Blue Bird Corp.
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Company Participants

Mark Benfield - Blue Bird Corp., Executive Director-FP&A and Investor Relations
Philip Horlock - Blue Bird Corp., Chief Executive Officer & Director
Razvan Radulescu - Blue Bird Corp., Chief Financial Officer

Other Participants

Michael Shlisky - Analyst
Eric Andrew Stine - Analyst
Craig Irwin - Analyst

MANAGEMENT DISCUSSION SECTION

Operator

00:00:12 Hello, all, and welcome to the Blue Bird Corporation Fiscal 2024 First Quarter Earnings. My name is Lydia and I'll be your operator today.

00:00:24 I'll now hand you over to your host Mark Benfield, Head of Investor Relations, to begin.

Mark Benfield

00:00:25 Thank you and welcome to Blue Bird's fiscal 2024 first quarter earnings conference call.

00:00:31 The audio for our call is webcast live on blue-bird.com under the Investor Relations tab. You can access the supporting slides on our website by clicking on the presentations box on our IR landing page.

00:00:45 Our comments today include forward-looking statements that are subject to risks that could cause actual results to be materially different. Those risks include, among others, matters we have noted on the following two slides and in our filings with the SEC. Blue Bird disclaims any obligation to update the information in this call.

00:01:05 This afternoon, you will hear from Blue Bird' CEO, Phil Horlock, and CFO, Razvan Radulescu. Then, we will take some questions. So, let's get started. Phil?

Philip Horlock

00:01:16 Well, thanks, Mark, and good afternoon, everybody. It's great to be here and to share with you our results for our fiscal 2024 first quarter.

00:01:24 Now, you recall in our last earnings call, we reported record results for fiscal 2023 fourth quarter and full year. Well, I'm pleased to tell you that our momentum has not slowed down at all, the Blue Bird team doing a fantastic job in delivering another all-time record profit in the first quarter of fiscal 2024. Razvan will be taking you through the details of our financial results shortly, so let me get started with the key takeaways for the first quarter on slide 6.

00:01:53 As the headline states, we achieved record financial results in the first quarter fiscal 2024. As I just mentioned and as shown on the first line in the box, it was a record adjusted EBITDA for any quarter in our history and our net sales revenue was a record for any quarter in the first half of fiscal year. So, with record profits and revenue, I am very pleased to tell you that we achieved an all-time high adjusted EBITDA margin of 15% in the first quarter and we're increasing full-year guidance once again. In just a few minutes, Razvan will take you through the financial details of what was an exceptional first quarter result for Blue Bird, including a comparison with last year.

00:02:36 As we look at the drivers for this terrific progress in Q1, it really is about maintaining and delivering the plan we laid out last year, which focuses on making significant improvements across our entire business. Market demand for school buses continues to be very strong, and our backlog for Blue Bird school buses was at a very healthy 4,600 units at the end of the first quarter. This bodes well for pricing, production stability and profit margins. Now, while supply chain issues are undoubtedly easing, there are select constraints on a couple of chassis components across the truck and bus industry that are still limiting industry production and deliveries. But we are very engaged with those constrained suppliers with onsite support at their plants and we are managing the situation well. On that point, despite these component constraints, we sold 9% more school buses than the first quarter in the year ago.

00:03:33 As I mentioned last quarter, the legacy price backlog, which hurt us in fiscal 2022 and in the first quarter fiscal 2023, is fully behind us. All those low margin units have been sold. Every bus in our order backlog now reflects current pricing and we are priced competitively, which we can tell from our quote win rate and our incoming orders. This is an entirely different Blue Bird bus revenue and gross margin structure compared with just a year ago. On the EV front, thanks largely to the first phase of the billion dollars of funding from the EPA's unprecedented (00:04:08) Clean School Bus Program, our first quarter deliveries of electric buses was an all-time record in a quarter, more than doubling from a year ago and we ended the first quarter with a strong backlog of EV orders.

00:04:23 As we have done for many years, we again increased our sales mix of alternative-powered vehicles over last year and further strengthened our leadership position. The higher margins and higher owner loyalty from these products contribute to our profit improvement in the first quarter. We'll continue to reinvest back to the business by selectively upgrading facilities and processes, enhancing the plant working environment. And as Razvan will show you later, we are doubling our engineering spending this year as we embark on exciting new product programs that will hit the market in the next two to three years. Through the efforts of the best workforce in the business, strong leadership, lean process improvements and sheer hard work, we have been achieving some of the best manufacturing performance the company has ever achieved.

00:05:08 Bottom-line, we're performing extremely well in a strong market while delivering a greater mix of higher-margin alternative-powered vehicles, we're priced competitively and appropriately in today's economic environment, and manufacturing efficiencies are improving. As a result of all these accomplishments, our first quarter profitability was an all-time record for Blue Bird at $48 million, with an exceptional adjusted EBITDA margin of 15%.

00:05:35 Now, let's take a closer look at the financial and key operating highlights for the first quarter on slide 7. I want to begin by saying that our first quarter financial performance is transformed from a year ago, with many record-highs reported. We sold over 2,100 buses in the first quarter of fiscal

2024, which is substantially 9% or 172 buses above last year. Incidentally, that is our highest first quarter unit sales volume in more than 15 years in what is typically a seasonally challenged quarter having just followed the start of the new school year. Those unit sales drove first quarter net revenue of $318 million, that's another first quarter sales record for Blue Bird and an outstanding 35% increase over last year. So, with volume up 9% and net revenue of 35%, the impact of higher pricing and a richer mix of alternative-powered vehicles including EVs is clearly evident in the revenue growth.

00:06:39 As I mentioned earlier, first quarter adjusted EBITDA of $48 million is another all-time record for Blue Bird, and that's $51 million above last year and well above the $25 million to $35 million general guidance range of quarterly profits that we set at our last earnings call. And finally, adjusted free cash flow for the first quarter was about breakeven as we protected our future material needs and $21 million below last year when, in fiscal 2023, we were aggressively cutting excess inventory left from the prior quarter. Razvan will cover this topic in detail in his section. Overall, we had exceptional first quarter financial results and transformational gains from last year.

00:07:23 On the right-hand side of the slide, you can see some of the key operating highlights for the business. As I mentioned earlier, demand continues to be strong, with our firm order backlog at the end of the first quarter worth over $670 million in net revenue, reflecting a backlog of over 4,600 buses. Incidentally, as of Monday of this week, our backlog has grown to 5,000 buses, so orders clearly haven't slowed down as we enter the traditional seasonal order cycle for school districts and fleet operators. We raised prices considerably over the past two years and the average first quarter selling price per bus in fiscal 2024 was an outstanding 26% higher than the year ago. That's worth about $29,000 per bus in revenue. Parts sales totaled $24 million in Q1, representing a strong 8% growth over last year in the typically slowest quarter of the year for parts sales, another great result by the parts team.

00:08:26 Turning to alternative-powered buses, they represented our second highest mix of sales in any quarter at 66% of total unit sales, and that's 4 percentage points higher than last year. We continue to be the undisputed leader in this space. No other major school bus manufacturer comes close to that number. Incidentally, I would be remiss if I didn't mention that our principal competitors, IC and Thomas, are no longer offering the propane or gasoline-powered school bus, and we are once again the only OEM supplying these important products. EV buses were part of that alternative-powered mix growth, with Q1 bookings increasing by 124% over last year as we sold a quarterly record of 206 (00:09:12) EV school buses. That represents an all-time high mix at 10% of our total sales.

00:09:21 Additionally, we left the first quarter with 420 firm EV orders in our backlog, which is around a 9% share of our total backlog. That's worth approximately $130 million in revenue. Incidentally, that backlog today is now at 500 EVs, representing 10% of our total current backlog. Clearly, we're benefiting substantially from the billion-dollars funding from the first phase of the EPA's $5 billion Clean School Bus Program. I'll cover later the exciting news on the second phase of the recently announced EPA funding, which is higher than was expected and will generate significant EV and propane school bus awards in the first half of 2024 calendar year.

00:10:06 Continuing with our EV successes, I am incredibly proud that, during the first quarter fiscal 2024, we received the largest single order ever of EV school buses from LA Unified School District following a competitive bidding process. That's 180 buses in total with deliveries starting late this calendar year and, importantly, this order did not utilize the EPA's Clean School Bus Funding program. That's a great testament to our competitiveness and to our leadership position in the EV segment.

00:10:39

Late in the first quarter of fiscal 2024, we announced that we had formed an exclusive joint venture called Clean Bus Solutions. That's a 50/50 JV with Generate Capital, who is a leading sustainable investment and operating company focused on infrastructure transition. Clean Bus Solutions will provide electric school buses and charging infrastructure as a service to Blue Bird customers for an affordable monthly fee over the lifetime of the service. This turnkey service eliminates a typical high upfront cost for a school district and paying for electric bus when grants are limited, and handles the entire charging infrastructure including installation. This recurring revenue business should accelerate adoption of Blue Bird electric buses by school districts and will be a great new sales tool for our dealers. We'll keep you posted on progress for the coming year as Clean Bus Solutions begins to transact business.

00:11:34 And finally, on the back of our first quarter results, we are once again raising full-year guidance for adjusted EBITDA and adjusted free cash flow. With an all-time record profit earned in Q1 reflecting a 15% adjusted EBITDA margin, I am very proud of our team's accomplishments.

00:11:52 I would now like to hand it over to Razvan to walk through our fiscal 2024 first quarter financial results and updated guidance in more detail. Over to you, Razvan.

Razvan Radulescu

00:12:03 Thanks, Phil, and good afternoon.

00:12:05 It's my pleasure to share with you the financial highlights from Blue Bird's fiscal 2024 first quarter record results. The quarter-end is based on a close date of December 30, 2023, whereas the prior year was based on a close date of December 31, 2022. We will file the 10-Q today, February 7, after market close. Our 10-Q includes additional material and disclosures regarding our business and financial performance. We encourage you to read the 10-Q and the important disclosures that it contains.

00:12:39 The appendix attached to today's presentation includes reconciliations of differences between GAAP and non-GAAP measures mentioned on this call, as well as other important disclaimers.

00:12:51 Slide 9 is a summary of the fiscal 2024 first quarter record results. It was another outstanding operating quarter for Blue Bird with somewhat limited supply chain challenges and with an increased number of higher-margin units driving both our top line and our bottom line results. We significantly beat the adjusted EBITDA general quarterly guidance provided in the last earnings call and, in fact, we delivered again the best quarter ever for Blue Bird with 15% adjusted EBITDA margin.

00:13:13 The team pushed hard and continued doing a fantastic job and generated 2,129 unit sales volume, which was 172 units or 9% higher than prior year. Record Q1 consolidated net revenue of $318 million was $82 million or 35% higher than prior year, driven by a higher number of units, higher parts sales, improved mix of electric buses, and pricing actions that materialized in this quarter as expected. Adjusted EBITDA for the quarter was a record of $48 million, driven by high margins, increased parts sales and margins, partly offset by increased labor costs. The adjusted free cash flow was negative $2 million and $21 million lower than the prior-year first quarter. This result was due to increased profitability which was more than offset by an increase in strategic inventories for the long lead component, a reduction in accounts payable, and a reduction in the EPA prepaids received in fiscal 2023 Q4.

00:14:28 Our liquidity position at the end of this quarter was very strong at $184 million. This performance was outstanding for both the top line and the bottom line. All-time record for Q1 quarterly revenue of $318 million; all-time record for quarterly EV sale above 200 units; and all-time record for quarterly adjusted EBITDA of $48 million and 15%.

00:14:54 Moving on to slide 10. As mentioned before by Phil, our backlog at the end of Q1 continues to be very strong at approximately 4,600 units, including 9% EVs. Breaking down the record Q1 $318 million in revenues into our two business segments, the Bus net revenue was $293 million, up by $80 million versus prior year. Our average Bus revenue per unit increased from $109,000 to $130,000 or 26%, which was largely the result of pricing actions taken over the past 18 months as well as the higher mix of electric buses. EV sales in Q1 were also at a record level of 206 units or 114 more than last year, a 124% increase year-over-year. We'd like to remind you that we have announced in this fiscal year two price increases for new orders, one in last October and one for the end of March, of $2,500 net per bus each in order to cover inflationary cost factors and significant long-term strategic investments.

00:16:06 Parts revenue for the quarter was $24 million, representing a growth of approximately $2 million or plus 8% compared to the prior year. This great performance was in part due to increased demand for our parts as the fleet is aging as well as supply chain-driven pricing actions and throughput improvements. Please also keep in mind that, due to year-end holidays and Thanksgiving, our fiscal Q1 has a lower number of work week. However, this year, due to the very strong backlog and the improved supply chain situation, we're able to maintain production levels and did not take the pre-COVID usual extended plant shutdown. Gross margin for the quarter was a record 20% or 17 percentage points higher than last year due to our improved operational performance and our pricing overtaking, in the last two quarters, the inflationary costs of the last 18-plus months.

00:17:03 In fiscal 2024 Q1, adjusted net income was approximately $30 million or $40 million higher than last year. Adjusted EBITDA of approximately $48 million or 15% was up compared with prior year by $51 million and 17 percentage points. Adjusted diluted earnings per share of $0.91 was up $1.21 versus the prior year.

00:17:29 Slide 11 shows the walk from fiscal 2023 Q1 adjusted EBITDA to the fiscal 2024 Q1 results. Starting on the left of negative $3.5 million, the impact of the Bus segment gross profit in total was $55 million, split between volume and pricing effects, net of material cost increases of $48.6 million and operational improvements of $6.4 million. The operational improvements consist of year-over-year manufacturing efficiency and throughput improvements, as well as lower freight-in costs. The favorable development in the Parts segment gross profit was $1.1 million, driven by higher sales and improved margins, as mentioned earlier in the call. These great improvements were slightly offset by increases in our other expenses and fixed costs, mainly personnel-related, of negative $5 million as we continue to reinvest into our business and our teams during fiscal 2024. The sum total of all of the abovementioned development drives our record fiscal 2024 Q1 reported adjusted EBITDA result of $47.6 million or 15%.

00:18:40 Moving on to slide 12, we have extremely positive developments year-over-year also on the balance sheet. We ended the quarter with $77 million in cash and reduced our debt significantly by close to $15 million over the last four quarters. Our liquidity is still very strong at a record $184 million at the end of fiscal 2024 Q1, a $100 million increase compared to a year ago. The operating cash flow was a black zero in this quarter, driven by an improvement in operations and margins, which was fully offset by an increase in trade working capital through lower payables and higher strategic inventories, a reduction of our EPA prepaid balance and the seasonal reduction in other accrued expenses.

00:19:27 Moving to slide 13. As mentioned in our last call, at the end of November 2023, we refinanced our credit facility at significant better terms with a five-year maturity date to November 2028. The new structure consists of a $100 million term loan with 5% per year amortization and the new revolver line of credit of $150 million. The reduced covenants and the extended maturity of our loan provide Blue Bird with both flexibility and stability, as our business grows profitably and we continue to lead the school bus industry in the alternative fuel space.

00:20:05 Slide 14 shows the sustainable results achieved by our team over the last four quarters, generating almost $140 million in adjusted EBITDA, or 11%. Our quarterly revenues has been in the $300 million range and growing partially due to pricing realization combined with the quarter-by-quarter increase in EV mix, which is now at approximately 10% of our sales. We have beaten/ raised our conservative guidance every quarter due to the outstanding execution of our plans by our team despite the still difficult supply chain environment with select suppliers.

00:20:35 The last three quarters have been in the 10% plus adjusted EBITDA range, demonstrating that we are delivering now consistently double-digit performance. Finally, it is important to note that unlike in the not-too-distant past, our pricing curve has been ahead of our costing curve, especially in the last two quarters preparing us for the significant investments lined up for 2024 and the contractual inflation factors expected ahead of us.

00:21:13 Before we talk about the updated guidance for fiscal 2024 and our long-term outlook, on slide 15, we wanted to share with you again some significant investments that we are starting in fiscal 2024 to ensure that our profitable growth strategy is successful. Our engineering expenses planned for fiscal 2024 are double the level of fiscal 2023, as we began the integration work for the next generation of Ford gas and propane engines for the next level of emission regulation. Additionally, we continue to evolve our EV offering and plan new product safety enhancement features. Finally, we will continue to ramp up our investment in bringing to market the commercial EV chassis by the end of calendar 2024.

00:21:51 We are also planning to triple our capital investments into capacity expansion, production facility upgrade, quality improvements and our supply chain capability and tooling towards our target of 50 buses per day or approximately 12,000 buses per year.

00:22:17 On the people side, we experienced inflationary pressures both externally from our supply base and internally, and we continue to provide very competitive benefits to our employees. We are also launching later this year a complexity reduction initiative and we will begin the upgrade of our ERP system as well as modernization of our business intelligence and financial planning and analysis tools. All these costs combined can add up to 2% to 3% of our revenue on a run rate basis later in fiscal 2024 and beyond.

00:22:51 On slide 16, we want to share with you our updated fiscal 2024 guidance. As a reminder, we are continuing to take a transparent and conservative approach also this year, as it is still a somewhat uncertain supply chain environment we are facing. However, we have improved already all the other business levers that we could address, as now demonstrated by our very strong trailing 12-month actual results.

00:23:16 Looking forward with fiscal 2024, we are maintaining our revenue to a range of $1.15 billion to $1.25 billion and we are significantly increasing our adjusted EBITDA to $130 million or approximately 11% with the range of $120 million to $140 million. This is an increase of almost 50% over the prior year record results.

00:23:40 Due to supply chain volatility, at this point, we are only providing and maintaining our general quarterly ranges, with every remaining fiscal 2024 quarter expected to have revenue between $275 million to $325 million and adjusted EBITDA in the range of $25 million to $35 million, or 9%

to 11%. We will provide further updates in mid-May after we close Q2 and gather further insight into our supply chain capabilities to support our strong backlog and increasing EV mix.

00:24:14 Moving to slide 17. In summary, we are forecasting a significant improvement year-over-year, with revenue up 6% or approximately$1.2 billion, adjusted EBITDA in the range of $120 million to $140 million, and adjusted free cash flow of $60 million to $70 million, in line with our typical target of 50% of adjusted EBITDA.

00:24:38 On slide 18, we'd like to give you an overview of our capital allocation for fiscal 2024 and the exciting share repurchase program we recently announced. Our capital allocation strategy balances investments for long-term profitable growth, return of value to our shareholders, and maintains a conservative cash position by year end. On the left side, our sources of cash consist of a very strong cash flow from operations after tax and interest of $148 million, existing cash at fiscal 2023 yearend of $77 million, and $5 million in dividends from our joint venture with Micro Bird. We do not expect to add new debt this year.

00:25:21 On the right side, we have three uses of cash: growth, shareholders and debt repayments. As far as growth is concerned, we plan to use and not to exceed $25 million in each of this category: R&D and engineering expenses, CapEx for growth and maintenance, and funding our newly formed Clean Bus Solutions JV, combined with potentially other small M&A activities.

00:25:46 Moving on to shareholders category, we are very happy to have announced recently our stock buyback program for up to $60 million over the next two years. This is supported by our strong existing cash and free cash flow guidance, and we believe it is the best way at this point to return value to our shareholders. Finally, in addition to the required term loan principal payment of $5 million, we plan to pay down the $35 million existing revolver balance to 0 during fiscal 2024 and maintain a conservative cash balance at year end in excess of $50 million.

00:26:22 On slide 19, we wanted to also reiterate our long-term outlook. The 11% adjusted EBITDA margin, it's firmly now in our updated short-term outlook. And once the supply chain further normalizes, we expect to sell approximately 9,500 units, including 1,500-unit EVs and generate $150 million on $1.35 billion in revenues. This could be as early as 2025.

00:26:49 Looking to the medium term, our EV growth and operational improvements can support volumes of 10,500 to 11,000 units, including EVs in the range of 2,500 to 3,500 units, generating revenues of $1.5 billion to $1.7 billion, with adjusted EBITDA of $175 million to $200 million, or 11.5% to 12%. Our long-term target remains to drive profitable growth towards approximately $2 billion in revenue, comprising of up to 12,000 units, of which up to 5,000 are EVs and generate EBITDA in excess of $250 million or 12.5% plus.

00:27:31 We're incredibly excited about Blue Bird's future. And now I'll turn it back over to Phil.

Philip Horlock

00:27:38 Thanks, Razvan. That was a great explanation of our Q1 financial results and our outlook.

00:27:42 Let's now move on to slide 21. I introduced this slide at our last earnings call, so I won't spend as much time on it today as our priorities in our strategy are unchanged, as they should be. The chart on the left illustrates the three priorities that continue to drive us; we're taking care of our employees, delighting our customers and dealers, and delivering profitable growth.

00:28:05 The chart on the right provides more texture around the specific strategies that we are pursuing that both align with our priorities and drive our forward year growth plans. At the center is our ultimate objective, to drive sustained, profitable growth. As you look at the accomplishments in fiscal 2023, we transformed the business from losses to record profitability, achieving a full-year margin of 8%. For fiscal 2024, we just increased our full-year earnings guidance to reflect an 11% adjusted EBITDA margin and over the next couple of years, we plan to grow that margin 12% and then beyond.

00:28:43 Our specific strategy is focused on delivering these financial goals and are spelled out in this chart, namely leadership in safety, both in the workplace and with our products, is paramount to us and we invest in (00:28:55) both engineering and CapEx in these areas in fiscal 2024. Best products and features, we seek to differentiate ourselves providing more value to our customers. Our buses are purpose-built from the ground up for transporting children safely with many unique features. They're not a derivative of a truck chassis, like most of our competitors and our customers understand the value of this.

00:29:22 Leading in quality, durability and alternative power is the cornerstone of our product, planning and development, and we will continue to differentiate in these areas. Having competitive cost through lean manufacturing and efficient throughput, strong supplier relationships and sheer smart product design are essential to compete in a business where competitive bids are required.

00:29:46 And after the sale, we need to provide great service and ensure vehicle uptime throughout the 15 years or more that our buses need to run. This means partnering with our exclusive dealer network that covers every corner of the United States and Canada, with our dealers having an average tenure with us of over 30 years.

00:30:05 As I have said many times before on these calls, you can't make it in the school bus business without a fully capable and experienced dealer network that can reach more than 10,000 school districts that operate their own bus fleets and 3,400 independent owner operators of school buses. Following this core strategy has been key to our transformation and will continue to drive our forward year plans.

00:30:30 Let's now turn to slide 22 and look at the latest impact of the federal government's Clean School Bus funding program, which is so important in helping to accelerate the adoption of electric and propane vehicles in fiscal 2024 and beyond. As a reminder, we are just entering the second year of this five-year program, which provides $5 billion of funding of electric and propane-powered school buses. There are still over $4 billion available after the first year of funding.

00:30:58 The second year, which referred to by the EPA as a 2023 program, provides for two rounds of funding totaling at least $1.5 billion. Now that's about $500 million more than was anticipated, and it appears to be an acceleration by the EPA to deploy the $5 billion in total funding.

00:31:19 As the left chart shows, round two applications for 2023 grant program were completed in August 2023, and in January 2024, the EPA announced they're increasing the funding from $400 million to $965 million due to the high level of grant applications. A total of 2,737 electric and propane buses were awarded, and the winners will have until December 2025 to purchase their buses using these awards. We expect Blue Bird buses to represent around 30% of the ultimate orders, amount to approximately 800 electric and propane school buses through this program.

00:32:00 Looking to the right chart, immediately after announcing the round two award results, the EPA announced this round three rebate program, which is also part of the 2023 program, will now total at least $500 million. Applications are being accepted until a week from now. It's anticipated that award winners will be notified by May 2024 and will have until April 2026 to purchase buses and close out their awards. If our win rate holds at about 30%, Blue Bird should expect to receive around 450 electric and propane school bus orders from this third round. Together, both of these funding rounds should generate orders for at least 4,300 electric and propane school buses and associated infrastructure, which is great for the industry and in particular for Blue Bird, with about 1,250 orders anticipated.

00:32:57 Now, with the deadline for purchase from grants from these two rounds being as late as April 2026, there is a likelihood that orders and corresponding deliveries could be late than we have been anticipating, pushing back deliveries into fiscal 2025, as end customers deal first with their charging infrastructure needs. We will work with our dealers and end customers to pull out as many as we can into fiscal 2024. But for prudency, we have cut our EV bookings forecast for this year from 900 units to 800 units.

00:33:31 So, let me now wrap up the earnings call and the outlook for the business on slide 23. Razvan talked you through the raised guidance for fiscal 2024 and I'm showing you some of those metrics at the midpoint of guidance here. We are being prudent on our bookings outlook, only increasing volume by 3% over fiscal 2023 at this time, as we still deal with two specific supply of the (00:33:53) constrained chassis components that are impacting the broader truck and bus industries. But we did manage these very well in 2023, and if we can build more in fiscal 2024, we will, just as we did last year.

00:34:08 Net revenue of $1.2 billion will be a new record for Blue Bird, up 6% from fiscal 2023. Adjusted EBITDA guidance of $130 million is almost 50% higher than the record $88 million we delivered in fiscal 2023. Importantly, we are planning on an 11% EBITDA margin in fiscal 2024, up 3 percentage points from fiscal 2023, which is a couple of years ahead of the plan we have been sharing with you.

00:34:37 We have confidence in achieving this margin after recording an impressive 15% adjusted EBITDA margin in the first quarter of fiscal 2024. It should be noted that the first quarter did benefit from an exceptionally high mix of EVs at 10% of unit sales, within a strong total mix of alternative fuel vehicles at 66% of sales. Now, this mix may not repeat through all quarters, especially with extended time granted by the EPA for customers to complete their purchase and deployment of the new EV funding awards that I mentioned earlier. You remember that's as late as April 2026 to get them in service.

00:35:20 Further, as Razvan pointed out, we are doubling our engineering work in fiscal 2024 in support of new product programs, which is contained in our 11% margin outlook for fiscal 2024 full year, along with the potential economic impact of our first collective bargaining agreement with the USW, as expected later in the year.

00:35:42 Finally, as I mentioned earlier, we are looking to grow EV unit sales to 800 buses in fiscal 2024, that's a substantial 47% increase over our sales last year. As you can see on the right chart, there are still a lot of pent-up demand or in the low end of (00:35:58) sales in 2020, 2021 and 2022, and the bus fleet is aged by a couple of years. ACT is forecasting a compound annual industry growth rate of 7% from the end of fiscal 2023 through fiscal 2027, and that's great news for our business and it's great news for our profit outlook.

00:36:20 With residual supply chain challenges still impacting the auto business, the ability to build all the units near-term is not a given, but the demand is clearly there, and that's what's really important. After executing a substantial transformation across our business, the company is performing extremely well. We'll continue to improve operating performance and look forward to sustained profitable growth in the robust market ahead.

00:36:46 On that note, as Razvan covered in his section, our recently announced $60 million share repurchase program illustrates our confidence in the business outlook, our ability to generate cash, and our commitment to drive shareholder value. The future is incredibly bright for Blue Bird and we're confident in achieving what have been our long-term goal of 12% EBITDA margin within the next couple of years.

00:37:10 I want to thank our nearly 2,000 employees for all their hard work and dedication delivering our all-time record quarterly profit in Q1, on top of a record full-year profit last year, as well as our expanding dealer body were critical to our successes.

00:37:47 That concludes our formal presentation today. I'd now like to hand it back to our moderator for the Q&A session. Thank you.

QUESTION AND ANSWER SECTION

Operator

00:37:57 Thank you. Our first question today comes from Mike Shlisky of D. A. Davidson. Your line is open. Please go ahead.

Analyst: Michael Shlisky

00:38:07 **Question – Michael Shlisky:** Yes, hi. Good afternoon and thanks for taking my questions.

00:38:10 **Answer – Philip Horlock:** Hey, Mike.

00:38:11 **Question – Michael Shlisky:** I guess I wanted to ask first about – hello there. Yes, I guess I wanted to ask first about the quarterly outlook that you put out there. You've kind of reiterated from last quarter that the lowest quarter of the year will be $275 million. You just put up a quarter of $318 million in your fiscal first quarter, which I believe is usually the least revenue, just because of the school calendar in most fiscal years. I'm having a hard time figuring out, and I do recognize that there was some EVs in there, but you didn't try to back out the price effect of EVs. It's hard to imagine if the rest of the year, typically from a unit level, whether it's EV rise, if they're usually up in the first quarter, you having a quarter this year that is $275 million. I'm curious, is there anything on the calendar or schedule that we should be thinking about here that I'm missing that would cause you to have a quarter that would have top line of about $275 million.

00:39:11 **Answer – Razvan Radulescu:** Yes. Hi, Mike. This is Razvan and thank you for the question. So, regarding the seasonality of Q1, so before COVID, indeed, this was the lowest revenue and lowest number of units because historically, we took extended shutdown for the plant to do extended maintenance work, but also because at that time, the order backlog was very low after the start of the school year. And so, as I mentioned in my remarks, this year, we maintained the speed of production and we did not take an extended shutdown, so we only took a couple of days around

Christmas and the Thanksgiving break. So, we did have, indeed, more working days in this Q1 than ever before.

00:39:57 In terms of the remaining quarters, we want to be conservative in our revenue guidance. And as I said, supply chain still has some constraints especially with two particular suppliers. So, should the supply of part be lower than the midpoint, this is how we might get to a lower quarter below $300 million, whether it comes through the total number of buses or through the percent of EV inside that number.

00:40:27 **Question – Michael Shlisky:** Okay. And just to follow-up there. Do you have any planned shutdown for the rest of the year just to kind of make up what you couldn't do in the first quarter or you're just going to go forward with it, think about next holiday season about it?

00:40:41 **Answer – Philip Horlock:** Hey, Mike. This is Phil here. I'll just take that. I mean, we're able to flex up, if we can, later in the year. I mentioned on my comments that, like we did last year, we can build more, we will build more, and that's where we stand. But we're being a little conservative. We're very active with a couple of constrained suppliers, as we mentioned. There are really great obviously throughput through the first quarter. We've just been a bit prudent in the balance of the year at this point.

00:41:08 **Question – Michael Shlisky:** Great. Great. It's great to see that you also had growth in the unit sales during the quarter, too, that was exciting. It doesn't appear to me that some of your competitors had growth in their unit sales in the quarter. Can you maybe comment on Blue Bird's market share? Do you think you're gaining share? And give me two answers, one on the ICE side and one on the EV side will be appreciated.

00:41:32 **Answer – Philip Horlock:** Well, we don't tend to talk too much about share. I mean, we definitely have gained some share over the last trailing 12 months. Obviously in the fiscal year, it's a short timeframe now and things change and different – we're just entering the what we call the bigger order season, frankly, when people ramp up and start thinking about buses for school start. But I say our share is strong, it's holding well, a lot of activity, a lot of interest. I mentioned about a win rate and order rate supports a strong demand. So, I think we're feeling – we're confident of what we're saying.

00:42:05 I mean, we have great faith in our ability and we have great product range, too, that's very expansive. You know I talked many times about no one has the product range we've got, from electric to propane to gas to diesel, type 8 on type As (00:42:18. We're on the type Cs and Type Ds. So, we got by far the best product range. So, we're confident in our outlook and what we're doing.

00:42:30 **Question – Michael Shlisky:** Great. Maybe one last one for me. The increased engineering cost that you mentioned, $25 million, maybe a little less than that, is that roughly equates to about 2 points of margin on this year's guidance? So, could you maybe tell us, do you think that – it sounds like without that, you'd be at EBITDA margins of perhaps 13% this year. Are these onetime costs, if we're to see a flat year next year, just as a thought experiment, you should be seeing a 13% EBITDA margin business, not 11% EBITDA margin business in a more normalized engineering investment environment.

00:43:09 **Answer – Razvan Radulescu:** Yeah, Mike, thanks for the questions. This is Razvan. So, the actual, the year-over-year increase is $12.5 million, so it doubled to $25 million. So, that's about 1% of sales on a year-over-year basis. And we do expect to maintain this elevated level for the next couple of years. Some of this projects are multi-year projects, especially with powertrain and some other product enhancements. So, for the next couple of years, we will sustain this level there about.

00:43:40 **Question – Michael Shlisky:** Thanks very much. I appreciate that clarification. I'll pass it along. Thank you.

00:43:47 **Answer – Philip Horlock:** Thanks, Mike.

Operator

00:43:47 Our next question comes from Eric Stine of Craig-Hallum. Your line is open.

Analyst: Eric Andrew Stine

00:43:54 **Question – Eric Andrew Stine:** Hi, everyone. Thanks for taking the questions. Well, first of all, I've been covering you for a long time, but see almost $50 million in EBITDA in the first quarter is quite something. And with that in mind, as I think about the remainder of the year and you just touched on it, but maybe I'll ask it a different way or clarify. So, Phil, were you saying that – so you planned (00:44:17) price increases and now you're actually a little bit ahead of where you see materials cost go? If that is the case, is that something where you think maybe EBITDA is more skewed towards the first half and the second? I guess I'll start there.

00:44:33 **Answer – Philip Horlock:** Yeah, I think Razvan talked about in his script, so I'll just let – he wants to just jump in here on this one.

00:44:38 **Answer – Razvan Radulescu:** Yeah. Hi, Eric, (00:44:39) and thanks for the question. So, as I mentioned in my remarks, indeed, our pricing curve is now ahead of the costing curve, especially for the last two quarters. And also, as highlighted with the upcoming investments, whether it's on the products and powertrain and R&D, whether it's into CapEx and manufacturing capabilities, which includes also a component of NRE in there, whether it's inflation from the supply chain or on the people side, all these costs are coming mostly starting in Q2 and through Q3 and Q4. So, the costs are backend loaded and the pricing curve is now, let's say, almost maximized for the year. So, indeed, we do expect a somewhat lower EBITDA in Q2 to Q4 compared to Q1.

00:45:33 **Answer – Philip Horlock:** You recall what we said, Eric, was that we priced $2,500 in every bus fixed price in October, start of our fiscal year, and then we priced again six months later, we will be another – price increase will go on. Dealers know about it. They have it. They accepted it. When we bid with our dealers, we look at, yeah, every single bid we do, we have opportunity to adjust the price up or adjust it down as we see fit with our dealers. But we're keeping a really close, really, really close tabs on this. And I think, as Razvan explained, it's just – we've used the term conservative in our outlook for the rest of the year and we'll continue to be so because you can never know what happens in a constrained environment we're still dealing with. So, I think our position we're in right now is a good position to be.

00:46:20 **Question – Eric Andrew Stine:** Yes. No, I can appreciate. You're being conservative given all that's going on. Maybe just turning to the EPA funding. You mentioned, well, first of all, good to see that the deadlines to actually get the funding, that that's been closed out. I know for round one, that infrastructure was a big issue. I mean, as you think about trying to pull things as much as you can forward into fiscal 2024, where do you think things stand on the infrastructure side? Is that still a limiting factor or do you see that easing at all?

00:46:58 **Answer – Philip Horlock:** Yeah, I think it definitely is. I think – look, I think everyone's getting better at it. We are active with several infrastructure providers, but I think certainly the pace of activity in the first year of this caught a few by surprise. They weren't quite ready for the utility companies. All their charging equipment was in the right place. And actually, I think I've mentioned in the last call, we have less than – I think that three vehicles were cancelled. Others had a lot of cancellations because they were not ready and they just pulled out.

00:47:28 And I think that's really the gating factor I was mentioning. When I was a bit a little cautious, I said, look, with second half of this year, we've got – awards are being granted and given to people for both these rounds, let's say, by May. And then, they've got until April of 2026 as the end point at which to install these buses. And they're going to look on charging stations first, it feels like to me, and we're helping them and we're working on the charges they need. But obviously, it could well push back a little bit when they want their buses. They're not going to get buses before they know where they got (00:47:59) charging stations in place.

00:48:02 And that's the challenge now for all of us in this industry to help that and move it along. But again, it's – the fantastic news is EPA stepped up this round two and round three to $1.5 billion. We thought it was going be $1 billion for the year, $1.5 billion for the year. Well, they have extended the timeframe. Now, like I said before, we're going to do everything we can to accelerate our deployment because we like doing that and it's the right thing to do. They work with the charging guys that we work with and others, and we work with our end customers, too, to help them.

00:48:34 **Question – Eric Andrew Stine:** Got it. That's helpful. And then, maybe last one for me, just on the Clean Bus Solutions joint venture. Just curious, early returns on that and is that something where you would expect – I mean, do you see people waiting to see if the EPA, if they're able to get either grants or rebates? If not, then they turned to the joint venture and that financing solution, or do you think that that's not necessarily the case and that people go that route regardless, just having a monthly cost that's similar to diesel?

00:49:11 **Answer – Philip Horlock:** Yeah, look, I look at it this way. First of all, obviously, EPA grants are really exciting. But there are 500,000 school buses on the road and we're talking about funding 4,300 with this next round. So, there's a huge appetite and huge oversubscription of school districts that want electric buses. That's why they stepped up this along (00:49:30) to $1.5 billion. So, the EPA, there's a big demand is what I'm saying. So, definitely outside of this, outside of the EPA money, and there are other grants around, by the way. There are things they call HVIP and TVIP in different states. But this Clean Bus Solutions gives a chance for a really affordable, get rid of the upfront stick shock of the EV, get it installed in your business quickly, in your district a bit quickly. So, we are very excited about that.

00:49:58 So, they go hand in hand, frankly. I mean, obviously, the EPA is such a tremendous opportunity to accelerate. But our Clean Bus Solutions activity, too, we got a ton of interest in it from our dealers and their customers, and we'll just keep looking at through the year here and let you know when we get our transaction start hitting.

00:50:20 **Question – Eric Andrew Stine:** Okay. Thank you.

00:50:20 **Answer – Philip Horlock:** Thank you.

Operator

00:50:26 Our next question comes from Craig Irwin of Roth MKM. Please, go ahead. Your line is open.

Analyst: Craig Irwin

00:50:34 **Question – Craig Irwin:** Good evening, gentlemen. Congratulations on the really strong quarter.

00:50:39 **Answer – Philip Horlock:** Thanks, Craig.

00:50:39 **Question – Craig Irwin:** So, even coming in – definitely, so much deserved. Even coming into the quarter, there was quite a lot of interest around the gross margin trajectory. And you gave us just another really chunky number this quarter. Can you maybe talk a little bit about the retreat of your competition, the other major school bus OEMs retreating from the alternative fuel markets and how this could impact your gross margins? In the conventional business, the business where you've excelled over the last many years, does this impact the longer-term potential margin trajectory for Blue Bird? And then, how should we be looking at EV mix and the impact on margins over the next couple quarters? Is this maybe part of the conservatism that you're giving us in the forward EBITDA guidance comments?

00:51:41 **Answer – Philip Horlock:** Hey, Craig. This is Phil here. Why don't I, I'll kick off that. I don't really like to comment on what our competition is doing. What I do know is that, we bid together on state bids, we attend different conferences and we're there together. And they're no longer offering the product that we're both offering, the propane and gasoline. They just got a diesel and electric offering out in the marketplace. All I could tell you is we picked a different competitor, right? We're in our 13th, 14th year actually now with an exclusive with Ford and ROUSH, which is pretty strong relationship we have. They're with a company called PSI and they're no longer offering it. So, I'd defer to them why they did that. Obviously, it's exciting for us. We are the leaders in this space. You look at our mix of our alt fuel vehicles, it's been over 60%. Alt power, as I call it, alternative diesel for quite a while now. Our competition's footprint been quite different even with that powertrain that they had.

00:52:41 And so, yeah, we're excited about the opportunity that brings because our propane, we know, is ultra-low emissions, a great product. It gets a great rebate and a grant from this EPA fund to make it very attractive. There are other grants around to support it. It's a terrific product, along with a low maintenance gasoline product that's super inexpensive to run. So, you put that together, we feel in good shape. I'm not going to commit on I see a big share growth here, but I can tell you, obviously, no surprise here. We're looking at who's driving those buses today and what we can do for them. So, I mean, that's really important.

00:53:18 I think on the – if I can move to the EV mix side, it's a difficult one to predict. I mean, obviously, 10% mix in the first quarter, we got 10% mix in our current backlog. We're talking about 800 now on a volume of sort of 8,750. We're looking at midpoints so more like 9% in total for the year. And we're just waiting to see a big piece that will be the EPA grant. So, I'm just a little cautious on how quickly those awards, when they're given, how quickly the orders are going to come in, how quickly we can build them (00:53:50). And that's driven by two, but when do they want it and when can we build it? I mean, there are still constraints in the battery business. There's no one battery manufacturer out there building packs that can say, I can build anything you want or whatever pace you want. One recently dropped out (00:54:06) going on there with Proterra. So, I mean, it doesn't affect us but, nevertheless, it's a sign of things that are happening in the industry.

00:54:14 So, I think we're being a little prudent right now and probably looking at, as I've laid out, 8,750 total volume, probably an 8% to 9% mix for the balance of the year. If we can build more, if we get more orders in, we certainly will it. It is a priority for us with the margins on those products, obviously, and customers who want the best product in the market. So, that's about where we are, Craig, I hope that answers your question.

00:54:38 **Question – Craig Irwin:** That's very helpful. Thank you, Phil. So, my next question is around your expectations you put in the presentation around the EPA's Clean School Bus Program round 2 and round 3. The 30% win rate is dramatically lower than your long-term share in the alternative fuels markets. And it really is mostly the same people, the same group at EPA that's handling the awards, the vouchers for the adoption of EV school buses, these funding opportunities that are so important. You've done way better than 30% of them in the past. Can you maybe talk a little bit about whether or not you think that EPA is under pressure to share this between different OEMs, if there's maybe just factors in the market that you're considering with knowledge of different programs and different commitments from customers? I mean, why 30%, I guess, is the question I'm asking you?

00:55:51 **Answer – Philip Horlock:** Yeah. Well, why 30% is sort of a – is a target we've put out there. There's a lot of activity around this. And when you look at who's bidding, I mean, we know it's ourselves and our major competitors. IC and Thomas, Lion Bus, BYD, Greer (00:56:04), you know all these guys, you cover them all. They're all in there. Have they really penetrated our business of school buses? Significantly, not the newer guys. If you look at it in totality, it is the big three, so to speak, right, who tends to get the bulk of the business. But I think right now, I don't see the EPA is targeting share in this. They're not looking at it. There are – when you look at the last grant round, while we got a lot of, this is the one I'm talking now, the 2023 grant that we called it round A that was just announced. We sort of know where we stand on that so far. A lot of fleet customers won some awards and they'll be choosing their own buses. A lot of our school districts that we traditionally haven't sold to got a lot of awards. Other fleet operators, yeah, I'm talking about the likes of, we all know them, right, for student (00:56:57), NEC, STA, they got awards. So, obviously, they have selected which bus they're going to use yet as such, so we're being a little prudent, right? I mean, 30% is a good target to go for. Love to see us beat it. We'll definitely beat me today, looking at our market share, I can see where we are. But this is open for everybody to apply. And obviously, all these manufacturers are putting in applications. All these dealers are putting in applications. I know many of the end customers are possible are putting them in. So, we haven't got this captive to ourselves. This is sort of broad network of all those districts and operators out there. What we got to make sure is, we will try and do our best to make sure they picked our buses. And that's what we're going to – that's what I'm going to work at. But we booked 30% out there as a target.

00:57:45 **Question – Craig Irwin:** Thank you. So, my last question is really one of clarification. The 180 buses from LA United, what a win, right? No EPA funding behind that and it's really just state and local funding. So, a really…

00:57:58 **Answer – Philip Horlock:** Yeah.

00:57:58 **Question – Craig Irwin:** …strong win. Are those 180 units included in the 420 that you said was in backlog at the end of December or is that incremental to the EV school bus backlog?

00:58:15 **Answer – Philip Horlock:** They were not at the backlog at the end of the year, the fourth one. They weren't in that – they're not in that number. Correct.

00:58:21 **Question – Craig Irwin:** Thank you. Hey, congrats on the quarter guys.

00:58:25 **Answer – Philip Horlock:** Thanks a lot, Craig.

00:58:26 **Answer – Razvan Radulescu:** Thank you.

00:58:25 **Answer – Philip Horlock:** Appreciate it. Thank you.

Operator

00:58:30 We have no further questions in the queue, so I'll turn the call back over to Phil Horlock for any closing remarks.

00:58:38 Well, thank you, Lydia.

00:58:39 And thanks, everyone, for joining us on the call today. We do appreciate your continued interest in Blue Bird and we look forward to updating you again on our progress next quarter.

00:58:48 Just a couple of comments I want to make. I think last year, you saw our momentum increasing throughout the year as profitability improved as we moved through the quarters. And we have continued on the same path by delivering impressive all-time record quarterly profit in the first quarter of fiscal 2024. And with that solid base behind us, that's why we raised our guidance once again, projecting a full-year adjusted EBITDA margin of 11% for fiscal 2024. As a reminder, it is up a full 3 percentage points above last year's then record profitability level. And we're confident in getting to a 12% margin within a couple of years as industry supply chain constraints continue to ease and we keep growing our business.

00:59:30 So, with that said, if you have any further questions, please don't hesitate to follow up with our Head of Investor Relations, Mark Benfield. And thanks again for all of you for joining us today, Blue Bird, and have a great evening. Good night.

Operator

00:59:44 This concludes today's call. Thank you for joining. You may now disconnect your line.