Operator

Welcome to the Westport Fuel Systems Second Quarter 2017 Conference Call. As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation there will be an opportunity to ask questions. To join the question queue you may press star then one on your telephone keypad. Should you need assistance during the conference call, you may signal an operator by pressing star and zero.

I will now like to turn the conference over to Ms. Caroline Sawamoto, Manager of Investor Relations and Communications for Westport Fuel Systems. Please go ahead.

CAROLINE SAWAMOTO speaking

Manager, Investor Relations and Communications, Westport Fuel Systems

Thank you and good afternoon. Welcome to Westport Fuel Systems Second Quarter 2017 Conference Call, which is being held to coincide with the press release containing Westport Fuel Systems financial results that went out earlier this afternoon. On today's call, speaking on behalf of Westport Fuel Systems are Chief Executive Officer Nancy Gougarty, Chief Operating Officer of the Automotive segment Andrea Alghisi, as well as Chief Financial Officer Ashoka Achuthan. Attendance at this call is open to the public and to media, but questions will be restricted to the investment community.

You are reminded that certain statements made in this conference call and our responses to various questions may constitute forward-looking statements within the meaning of U.S. and applicable Canadian securities law and such forward-looking statements are made based on our current expectations and involve certain risks and uncertainties. Actual results may differ materially from those projected in the forward-looking statements, so you are cautioned not to place undue reliance on these statements. Information contained in this conference call is subject to and qualified in its entirety by information contained in the Company's public filings.

I'll now turn over the call over to Nancy.

NANCY GOUGARTY speaking
Chief Executive Officer, Westport Fuel Systems

Thank you, Caroline. Good afternoon and thank you for joining us for the Westport Fuel Systems second quarter results conference call. I'd ask you please to turn to slide 3.

A year ago, I spoke to you on my first conference call as CEO. On that call, I shared my vision for the combined company. As part of that, I set out some clear objectives including taking quick and decisive actions to unlock our value of our technology, assets and people. I also indicated that we had much to do, but we would be measured, purposeful, share results and outcomes, not intentions. I am pleased to say that we have made considerable progress on these goals in the first four quarters and we are a different Westport Fuel Systems today.

We have shifted our focus to our core businesses where we have an advantage; sold non-core assets and eliminating unprofitable or distracting businesses and/or initiatives; advancing our key technologies and improving our financial position substantially. In parallel, we are driving operating efficiencies and cost reductions.

Turning to slide 4, as some of you have heard me say, one quarter is a data point, two is a line, but three to four quarters is a trend. The last two quarters of 2017 I have a much improved story over 2016. Our revenue and gross margins are trending up, our costs are trending down, and our Adjusted EBITDA is trending in the right direction. This has been achieved through a number of initiatives such as reducing the number of our facilities by 41%, or a 30% reduction in square footage; improving our working capital and inventory management; focusing our R&D efforts, and rightsizing our workforce.

We have come a long way in four quarters, but there is still more work to be done. Our goal is to make Westport Fuel Systems a sustainable, profitable company that delivers value to customers, employees and shareholders.

The leadership team is committed to achieving Adjusted EBITDA breakeven in early 2018 and improving from there.

As we exit 2017, our HPDI capital spending will mostly be behind us, and our R&D spending dropping, and the bulk of our restructuring payments will be complete. The asset sales and the recent equity raise have given us a financial platform to execute our goals.

Combining our improving our improved financial performance in our key sectors of our business, we are excited and energized about the future of Westport Fuel Systems as we lead the shift of the global transportation system from petroleum to clean gaseous fuels in all forms.

I hope our recent track record has given you confidence that the Company is moving in the right direction and can meet and exceed our goals.

Turning to slide 5, as I mentioned earlier in my comments, much has changed in the past year. With the sale of our industrial business earlier this year, we have streamlined Westport Fuel Systems into three ongoing business segments: Automotive; our joint venture Cummins Westport; Corporate and Technology.

Looking at our automotive business, our focus in the past four quarters has been on integrating the Company and transforming our operating performance. In the first half of 2017, it has translated into good sales with strong revenues in quarter 1 as well as quarter 2. Part of this is due to our customers and suppliers who stayed with us during this time of transition and now see the merits of the merger.

I could tell you that we have made the right decisions in our portfolio rationalization. The businesses we have maintained are contributing to our improved performance. Looking at quarter 3 and quarter 4, our focus remains on operational excellence and taking steps internally, steps that are in our control and we know how to execute upon, to improve our overall performance and find additional cost savings. We believe the results will be better economies of scale, greater consistency across brands and a clear path into 2018.

Turning to CWI, it was a strong quarter. I am extremely pleased the leadership team that was able to deliver the strong performance, which was above expectations. I will let Ashoka talk more about our Cummins Westport joint venture as he is a board member; however, I could tell you we are enthusiastic about the engine line-up, which positions CWI well for 2018.

Our Corporate and Technology sector, which includes Westport HPDI and our other advanced technologies. This is a milestone year as we look to ship the first commercial Westport HPDI 2.0 components to our launch partner. This is the culmination of many years of dedicated work and determination to bring HPDI 2.0 to market. We are closer than ever on seeing HPDI 2.0 trucks on the European roadways. The actual timing is driven by our launch partner and we will defer to them, but we look forward to being able to talk more and report on this in the third quarter.

Our commitment to innovation and technology is key to who we are. We continue to have discussions with OEMs that come to us first because we are the global leader in natural gas technology development. But before, as I have said, our work will be funded by these partners and our commercial opportunities must be known before moving forward.

In addition to HPDI, we are making progress on other gaseous fuel technologies as well. There are other exciting opportunities, but as you know, we will tell you about them when they are signed and complete.

On the Corporate side, we will continue to address our residual legacy obligations with the objective of putting them behind us by the end of 2017. This will allow us to concentrate on growing in 2018 and beyond.

It is a parallel process of improving our overall performance, which will ensure that nothing will weigh us down as we move forward.

Before turning the call over to Andrea, I'd like to reiterate the management team is committed to the success of the Company, and we have personally invested our own money into Westport Fuel Systems. Last year, I outlined a clear vision of our path ahead. This vision remains unchanged. We're on a path we set out on and we will continue to dedicate our efforts to focusing on our core businesses, eliminating unprofitable initiatives, advancing key technologies, and improving our financial performance.

The team is acutely aware that we cannot and will not remain stagnant. We will continue to restructure our business to align with the next phase with our launch of HPDI 2.0. We are working hard and are more confident than ever of what we can achieve. We are ready for the challenge and excited to start a next chapter for Westport Fuel Systems.

Thank you for taking time to join us today and I look forward to speaking to you soon.

Andrea, over to you.

ANDREA ALGHISI, speaking
Chief Operating Officer Automotive Segment, Westport Fuel Systems

Thank you, Nancy. Before getting into the slides, let me start by saying that in the last few months I have visited customers and distributors and they are pleased with the focus we have put on addressing their needs after the merger, and with our service level performance, even with the working capital reduction efforts we have carried out. We can see now in our top line the results of this focus on our clients.

Now starting on slide 8, my comments will compare the second quarter of 2017 with the first quarter of 2017. Because the merger did not occur until June 2016, year-over-year results are less meaningful for comparative purposes. As you can see on the slide, we have transformed our Automotive segment over the past four quarters. We are pleased with what has been accomplished and with the improvement of the first half of 2017 versus the second half of 2016; however, there is more to do and additional efforts are under way which we expect will show results in the coming quarters. As my colleagues and I have learned over our years in the industry, you cannot control market cycles, government policies or commodity prices. You can only control how you operate and deliver to your clients.

Now, turning to the performance in the second quarter. Revenues were up from Q1 2017 on higher aftermarket performance, notably in Eastern Europe and Turkey, as well as currency tailwinds, but weighting down by continued weakness in the Argentinian market. We have taken further restructuring actions in this region and did see an upturn in the market in July which we hope will continue, but we will act quickly and decisively to assure our costs are aligned with market dynamics.

Gross margins of 24% were down slightly from Q1 due to a mix effect on OEM and after treatment and to E&O one-off effect in Westport Sweden and OMVL. On the other hand, you can see the improved performance in the first half of 2017 driven by our alignment efforts.

Adjusted EBITDA for the Automotive segment was $3.1 million or 5.1%, down from the first quarter. Adjusted EBITDA was impacted by lower volumes in Argentina and lower gross margin due to the above mentioned sales mix effect. Actions have already been taken to address these effects and we expect to see margin improvement, all things equal, in the second half of 2017. We confirm that we are on track to reach our target Adjusted EBITDA margins of 7% to 10% in 2018 and beyond.

As we look at the rest of the year, we don't see any major changes in the outlook, and despite the typical seasonal pattern of the second half being weaker than the first half, with the September quarter the weakest due to the holiday shutdowns and model year turnover. We are leaving our Automotive guidance of $200 million to $230 million unchanged at this time and look forward to providing future updates.

I'll now turn the call over to you, Ashoka.

ASHOKA ACHUTHAN speaking
Chief Financial Officer, Westport Fuel Systems

Thank you, Andrea. My comments begin on slide 10. With our recent monetization of non-core assets and financing actions, I am pleased to state that our balance sheet has been strengthened and we are now in a financial position to execute our long-term plan going forward. Many of our existing and prospective customers and partners are also reassured by these improvements on our balance sheet and liquidity position.

As of June 30th we had cash and cash equivalents of $87.7 million, which included proceeds from the sale of our Industrial business during the quarter. In July, we completed an equity offering that generated additional gross proceeds of $28.7 million.

In connection with our debentures of CAD$55 million maturing in September 2017, on August 8th we made an offer to the debenture holders to either redeem or consent to an extension of the maturity date for a period of three years.

As Nancy mentioned, we are trending in the right direction, but know there is more work to be done to get the Company on a profitable and sustainable footing.

One year into the merger, we've had significant accomplishments. We have achieved $30 million of run-rate merger cost savings a year ahead of schedule. We have sold non-core assets generating in excess of $100 million in cash. We have improved the Automotive segment Adjusted EBITDA from the second half of last year compared to the first half of this year from negative $0.8 million to positive $6.7 million, and our consolidated Adjusted EBITDA has changed from negative $21.8 million in second half of last year to negative $9.4 million in the first half of this year, a 57% improvement.

Now turning to slide 11 which shows the results of CWI, our joint venture with Cummins. Revenues and gross margins were up year over year and sequentially. The refuse market remained solid and we also saw an uptick in the U.S. trucking sales. Gross margins were helped by higher volumes, higher parts revenue contributions and a favourable warranty adjustment which is a direct result of quality upgrades put in place to improve product reliability and durability.

Income for the period was also helped by lower R&D and SG&A spending. As stated in earlier calls, CWI has had elevated R&D and sales and marketing costs over the past two years as the Company launched its new 6.7 litre engine, incurred engineering expenses to incorporate on-board diagnostics, and for the development of zero equivalent emission engines.

We are almost through this higher spend, and expect to see a significant decline in these spending levels in upcoming years.

CWI's new product line is a very significant milestone for the Company. These new engines mean our customers can choose the most affordable path to zero-equivalent emissions with no commercial constraints on supply or technological readiness.

Turning to slide 12 which shows our SG&A and R&D expenses from our Continuing Operations by segment. Our SG&A costs did tick up during the quarter due to an additional $1.8 million in stock-based compensation charges, as well as some foreign exchange impact. Rightsizing our cost structure remains a key priority and further actions are underway. We will continue to take appropriate steps needed to align costs and revenues.

R&D spending was $14.2 million, up from the prior quarter, driven mainly by spending on our current HPDI program, much in line with the expectations laid out at the last call. As of now, we expect R&D spend in the second half of 2017 to be about the same or slightly higher than in the first half. In 2018, we expect R&D spend in the Corporate and Technology segment to be at about half the levels of 2017. We are also working on consolidation opportunities in our Automotive divisions which we expect will provide additional savings in R&D as we move into 2018.

Turning to Slide 13, which shows our quarterly cash walk, starting with the $47.7 million as of March 31, 2017. We received $79 million in net proceeds from the sales of our Industrial business, and $1.7 million in dividends from our joint venture. We also had $9.9 million in debt repayments, the majority of which was a prepayment of royalties payable to address our collateral obligations to Cartesian Capital. We had cash costs relating to restructuring activities and related to our discontinued businesses of $11.8 million. Capital expenditures were $11.2 million, mainly related to equipment purchases to support HPDI 2.0 production. We expect to spend an additional $7 million to $8 million in capital expenditures in the rest of 2017. Again, this is one-time spending to support HPDI 2.0 program.

Cash used in operations was $8.1 million, up slightly from the first quarter, as expected on the higher R&D spend, but much improved from the second half of 2016.

We closed the quarter at $87.7 million which, of course, does not include the July equity offering which had gross proceeds of $28.7 million.

Moving on to slide 14, to summarize, as Andrea mentioned, we continue to expect our Automotive revenues to be between $200 million and $230 million for 2017. We remain focused on aligning our costs to our revenues. We are excited to be shipping commercial HPDI components to our launch partner later this quarter—a significant milestone for the Company. Our Adjusted EBITDA will fluctuate in the second half due to the timing of HPDI spending and seasonality in the Automotive business, however, we remain on track to reaching positive Adjusted EBITDA on a consolidated basis in early 2018.

We look forward to reporting on our future progress and to speaking with some of you at upcoming investor conferences.

I will now turn over the call to the Operator for questions.

Operator

We will now begin the question and answer session. Analysts who wish to join the question queue, you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speaker phone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. We will pause for a moment as callers join the queue.

The first question comes from Rob Brown with Lake Street Capital Markets. Please go ahead.

Rob Brown - Lake Street Capital Markets

Good afternoon.

Ashoka Achuthan - Westport Fuel Systems - Chief Financial Officer

Hi, Rob.

Rob Brown - Lake Street Capital Markets

On the HPDI rollout, just wanted to get a sense of how you see that sort of playing out. You said shipping components in Q3. Do you have a shipment build that sort of fills a channel or how's the timing of that look at this point?

Nancy Gougarty - Westport Fuel Systems - Chief Executive Officer

Rob, this is Nancy. Good to hear you. On the HPDI rollout, again, we're a little bit paced at this point in time relative to our launch partner's plans, but where we see our activities at this point in time is really filling the pipeline, as you have suggested, and that is what we're working with. We have really moved very far through what we call this P-PAP with our suppliers so that we have all the supplier readiness there and then it's a matter of filling the pipeline into our launch customer.

Rob Brown - Lake Street Capital Markets

Okay, good. Just following on that, you said CapEx spending for the rest of the year a little bit. What's sort of the normalized CapEx spending after you get done with HPDI piece?

Nancy Gougarty - Westport Fuel Systems - Chief Executive Officer

Ashoka, why don't you talk about that because you did mention something about what to expect in '18, so perhaps you can outline '17 and a bit more on '18?

Ashoka Achuthan - Westport Fuel Systems - Chief Financial Officer

Sure. As I mentioned, Rob, our spend this year as I mentioned, is essentially due to the equipment we are paying for at some of our key component suppliers, mainly at Delphi. We expect that to be complete by the end of this year. So, on an ongoing basis we expect our—into 2018 and beyond, we expect maintenance ex CapEx to be in the region of say between $5 million and $7 million.

Rob Brown - Lake Street Capital Markets

Okay, good. Then switching to CWI, it was a very strong quarter. I guess what are the trends there? Do those kind of continue? Was there some one-time stuff in this quarter or do you see that continuing? Then maybe what's the trajectory of the cost out there as well?

Ashoka Achuthan - Westport Fuel Systems - Chief Financial Officer

No, I think it was a good quarter at a number of levels. Volumes are holding up well. We are seeing strong demand on the refuse side, and as you know we launched the 6.7 litre engine into the school bus market last year. So, on the revenue side it's holding up well. The trucking uptake of the 12 litre engine is also positive, so there is good news on that front, but on the earnings side, the reason we had such a significant improvement over the prior quarter had to do with a warranty accrual, a favourable warranty accrual adjustment. These adjustments are calculated once every quarter, at the end of each quarter, based on the warranty costs incurred during the course of that quarter and it's essentially a catch-up adjustment at the end of each quarter. So while this was very strong, I do not expect this favourable warranty to continue to play out going forward, unless, of course, there are incremental improvements and you'll start seeing the effect of those incremental improvements.

Nancy Gougarty - Westport Fuel Systems - Chief Executive Officer

Ashoka, I guess I would also add is that with this zero equivalent product that we have, I think that the product is coming out to the marketplace in just the right time because it has attributes that are similar to that that you would have with electric vehicles. We're finding that that also, as we move into '18 since all the engines will be this zero equivalent, this will also position us quite well for additional growth and opportunities, especially as certain cities, whether it's L.A. or others are looking to refresh their fleets or add additional, more environmentally friendly products into their portfolios in terms of their public transport products.

Ashoka Achuthan - Westport Fuel Systems - Chief Financial Officer

Yes, absolutely. Good point.

Rob Brown - Lake Street Capital Markets

Great, thank you. I'll turn it over.

Operator

The next question comes from Amit Dayal with Rodman & Renshaw. Please go ahead.

Amit Dayal - Rodman & Renshaw

Thank you. Good afternoon guys. Just one question around the guidance. You'd think by this point of the year the guidance range would have been narrowed a little bit. Could you give us any colour on what are the variables between this range in guidance that may be in play.

Nancy Gougarty - Westport Fuel Systems - Chief Executive Officer

We've spent a lot of time talking about whether we should narrow the guidance, however at this point in time we have some seasonality because of the European holiday season and some attributes like that. So, at this point in time we decided at least as we move into Quarter 3 we were going to hold onto it and I think that as—I'll give it back to Andrea for a few words but I think that we are going to just wait and see how quarter 3 turns out and then we'll come back and talk about this as we move into the next quarter.

Andrea Alghisi - Westport Fuel Systems - Chief Operating Officer, Automotive

Yes, as you mentioned, Nancy, historically the second quarter of the year is usually the lowest compared to the first one. In particular in Q3, as you mentioned, due to the reasons I mentioned also during my section, and so we prefer to wait until Q3 in order to understand if we can narrow and maybe improve the guidance further more. So after Q3 you will see for sure a different range.

Amit Dayal - Rodman & Renshaw

Understood. In terms of the HPDI 2.0 launch, are there any concrete dates around shipments or announcements that you can sort of look forward to?

Nancy Gougarty - Westport Fuel Systems - Chief Executive Officer

I would say that from our point of view we're being very much gated by the launch partner. We do have schedules on hand and we know what our shipping windows are and what our obligations are relative to their schedules. However, as I said, I think that we'll have a much more satisfactory discussion with you guys as we move into Q3 as they have—as they move further into their launch window and have put their plans out on the Street. So, bear with us as we get through this and move into the—as we close out quarter 3 I think that the discussions will have a lot more clarity to them.

Amit Dayal - Rodman & Renshaw

Understood. Just lastly, are there any additional milestone payments due in relation to HPDI 2.0 or are we done with those?

Nancy Gougarty - Westport Fuel Systems - Chief Executive Officer

Yes, there are additional milestone payments that we will be making through the rest of calendar year '16 and even into early calendar year '18. But as you can see, we are continuing to really drive our costs down because we're now past some key milestones relative to where we are, but there are a few, as you could imagine as we get through the latter—into the final launch phase.

Amit Dayal - Rodman & Renshaw

Thank you. That's all I have.

Operator

The next question comes from Jeff Osborne with Cowen and Company. Please go ahead.

Jeff Osborne - Cowen & Company

Hey, good afternoon. Most of them have been addressed, but just a couple, Nancy. Can you talk about beyond your launch partner that you have later this year what the outlook looks for ’18? Do you anticipate other partners being able to launch? Where are you with the developments for people other than the launch late this year?

Nancy Gougarty - Westport Fuel Systems - Chief Executive Officer

As I mentioned, we are in discussions with quite a few folks relative to HPDI. I think that this is an interesting time in the trucking industry for a variety of different reasons. As you can hear globally, and as I travel around the world, the voice around where the opinions are around diesel and greenhouse gas, trying to be much, much more clean relative to the environment, all of these have ratcheted up very, very positive discussions with quite a few of the OEMs that we interface with. So there is a lot of I’ll say discussions going on; HPDI is a good portion of that. However, I don’t want to get ahead of ourselves even though I see some things that are quite promising, I really want to wait until we get them fully inked before we bring them out. But, I would indicate to you that HPDI is one of the best technologies that we have in terms of greenhouse gas—the 20% improvement that we get over that of diesel—and there are a lot of other positive attributes as well, especially as infrastructure gets built and the customers are seeing a zero compromise product and they get like-diesel performance. So, we’re very pleased with where we are on that front but we’ve got to get a few more things solidified in terms of how we want to differentiate products and be able to bring the products out to market with others.

Jeff Osborne - Cowen & Company

Makes sense. Can you just comment if there’s anyone other than your launch partner actually doing field test validation work, or are these still just discussions about theoretical cases?

Nancy Gougarty - Westport Fuel Systems - Chief Executive Officer

No, no, no. I would say things are moving along. I’m not going to give you specifics but I would say some folks are moving trucks onto the road and other people, we’ve finished engine work and we’re now moving onto the next phase.

Jeff Osborne - Cowen & Company

Got it. I just wanted to make sure we were past the discussion phase and there was actually some work being done, so it sounds like that’s the case and good to hear.

Ashoka, I heard the comment for 2018 about R&D essentially going down in half as HPDI 2.0 launches. Can you just touch on the other line items within OpEx? How we should be thinking about those for the year; are there any major moving pieces there, or are you just being disciplined and maybe some slight reductions but nothing heroic?

Ashoka Achuthan - Westport Fuel Systems - Chief Financial Officer

Yes, I mean as I mentioned, our integration efforts have started to bear fruit already and we are a year ahead in terms of schedule with our major integration and now our focus—and most of that focus has been on the COGS side, on the cost of goods sold side and you can see the effect at our gross margin levels compared to last year. We are now turning our focus on the OpEx side, both R&D and SG&A. With the Corporate and Technology segments, it's pretty straightforward in that as the launch gets behind us we expect to see 50% drop, which is a reasonable number to kind of work into your model, a 50% drop in R&D expenses.

Additionally, we are looking at consolidating engineering efforts on the Automotive side as well, so we expect that you can expect to see a decline. I'm at this point unable to give you a range or a number, and likewise with SG&A. While a good number of actions have already been instituted, notably the closure of the Fuel Systems corporate headquarters in New York City, which we have essentially integrated into our Vancouver operations with minimal incremental cost, we have exited a very significant lease obligation here in Vancouver. There was a plan to move corporate offices into larger, more expensive facilities; we exited that under very favourable terms, which is a part of our restructuring costs this year.

So, you can expect improvement, no doubt, and we will look forward to reporting on that as it rolls out.

Jeff Osborne - Cowen & Company

Makes sense. Look forward to seeing it. Just lastly, can you just talk about the regional trends you're seeing on the passenger vehicle side from the legacy Fuel Systems and for the smaller piece of Westport? In particular, I was just curious what your exposure to Venezuela is.

Nancy Gougarty - Westport Fuel Systems - Chief Executive Officer

Andrea, why don't you take that one on? On Venezuela, it's relatively small but I'll let Andrea just talk about what we're seeing on that side of the world.

Andrea Alghisi - Westport Fuel Systems - Chief Operating Officer, Automotive

I'm not sure I got all the question. Could you repeat, please, the question?

Jeff Osborne - Cowen & Company

Yes, I was just wondering if you could walk us around the world in, say, roughly Italy or Western Europe's 50% of demand. Are you seeing any regional trends as it relates to adoption of your passenger car solutions? In particular, I was curious about the Venezuelan exposure. I know historically your company had had some exposure to that market.

Andrea Alghisi - Westport Fuel Systems - Chief Operating Officer, Automotive

Yes. Let's say that as you know, and also Ashoka was mentioning we have consolidated our footprint in the U.S. so starting from North America we have consolidated our footprint in the U.S. because with this let's say low oil price demand is not very strong, I would say, for light duty. So, we have consolidated our footprint there because demand is not strong there. Getting to South America, we have also consolidated our footprint in Argentina. Argentina has been going through a dramatic downturn in the first I would say three months, and then in May and June it's been even worse. Now in July, we had some positive news with a rebound in the market but I will wait the next two or three months to understand if this is structural or just let's say and isolated event.

Eastern Europe and Turkey in particular, getting now to Europe and Italy, are the markets that are going better, I would say. We see very positive market trend in Eastern Europe, so Russia, Poland and Turkey as well. Turkey has become the first market, I would say, in particular for the Aftermarket channels. In Italy, Aftermarket now start increasing again, even though very slowly, whereas on the OEM side, in particular for LPG, the first six months we have experienced 25% growth year over year, so a very, very let's say good trend. I would say that in general in Europe alternative fuels are going very well and this is a trend that is going probably against diesel as everybody has mentioned. So not only electrification is taking place but also we are playing our role in getting part of the diesel market share.

Moving to Asia, I would say that India is a very interesting market, also for light duty. I would say for all the applications but in particular for light duty, we have very interesting relationship with established OEMs there in India with our CNG solutions, and also in India, Aftermarket, in particular for taxi applications.

China, I would say there is a moderate interest for alternative fuels in the light duty. It's more a delayed OEM kind of market, and there electrification is growing very fast.

Jeff Osborne - Cowen & Company

Very good. I appreciate all the detail. Oh, go ahead.

Andrea Alghisi - Westport Fuel Systems - Chief Operating Officer, Automotive

I hope I have given you an adequate overview.

Jeff Osborne - Cowen & Company

No, that's more than enough. Thanks.

Andrea Alghisi - Westport Fuel Systems - Chief Operating Officer, Automotive

Okay, thanks.

Operator

Once again, any analyst who wishes to ask a question may press star, then one. The next question comes from Colin Rush with Oppenheimer. Please go ahead.

Colin Rusch - Oppenheimer & Co. Inc.

Thanks so much. Can you talk a little bit about the maturity of the infrastructure or the fuelling infrastructure in Europe as you go into the back half of the year? How many partners are you working with to look at that buildout and how can we expect that to pace, or what the cadence might look like over the next 6 to 12 months?

Nancy Gougarty - Westport Fuel Systems - Chief Executive Officer

I assume that you're talking more around the LNG. I would tell you that—and Andrea has got some great statistics on where we are built out relative to CNG and LNG in the European market. What I would tell you on the LNG side, we are seeing continued efforts. Now, the good news is as we work with various OEMs in Europe, they are also working with us collaboratively with our fuelling, a variety of different fuel partners. Shell in particular is one that we work with quite well. We are working also with certain government groups that are trying to build what they call corridors. Like there's a blue corridor that's going in place, so there's quite a bit of activity.

One of the things that we're highly encouraged as we get into this launch window is that in several areas, whether it's Spain or in the U.K., there is a tremendous amount of infrastructure already in place and just a matter of getting vehicles there that can use the LNG infrastructure that's already in place. As you can imagine, there has been a lot of work over the last years of moving the port infrastructures around into using LNG and that has also enabled infrastructure to be quite nicely built out at this point in time.

We work with a variety of different fuel providers and I think the other good news is by collaborating with triangulating the OEM with the fuel providers as well as with Westport in terms of getting products on the road, the combination of that is quite powerful and we're seeing good build-up and we're not finding that fuel infrastructure is really restraining the ability to grow at this point, at least in the European market.

Colin Rusch - Oppenheimer & Co. Inc.

Great. That's super helpful. Then just turning to the balance sheet, can you talk a little bit about your expectation for working capital needs as you go through the balance of the back half? Are you going to see working capital as a source of cash as we go into the back half of the year, or are you going to see a little bit of increased investment?

Nancy Gougarty - Westport Fuel Systems - Chief Executive Officer

Ashoka, can you take that one?

Ashoka Achuthan - Westport Fuel Systems - Chief Financial Officer

Yes. Thanks, Nancy. Yes, you're right. As we launch HPDI obviously we have to address the fact that we will see an uptick in our working capital position there, but we don't expect to be that significant; in single digits is the best direction I can give you in terms of where I expect that to be.

We continue to take action at the rest of the operations to address working capital at all levels, AR, AP as well as inventory levels, so we expect to see some moderation of the increasing working capital on the Corporate and Technology segment.

Colin Rusch - Oppenheimer & Co. Inc.

Okay, great. Then final question is just around debt repayment. How much are you expecting to pay back in the back half of this year and how should we anticipate that rolls through in the third and fourth quarter?

Nancy Gougarty - Westport Fuel Systems - Chief Executive Officer

I think—again, Ashoka mentioned, and he can go into the details. Right now we have gone to our debenture holders; they have been very good to us. Many of them have been with us since 2008. We'll wait and see exactly how many of them would want to continue and extend their debentures with us. That will really determine a good portion of the repayment that we need to take in the last part of the year. The debentures right now, if folks don't want to do anything with them, September 15 is the date that we need to be able to repay them. However, as Ashoka mentioned, we're in active discussions with them now and we'll see prior to that September 15 date exactly what their desires are.

Colin Rusch - Oppenheimer & Co. Inc.

Perfect. Thanks so much, you guys.

Operator

The next question comes from Eric Stine with Craig-Hallum. Please go ahead.

Eric Stine - Craig-Hallum Capital Group

Hi everyone. I just wanted to touch on Europe. I know in that market IVECO and Scania, they've come to market with their spark-ignited engine and uptake has been solid early. Just wondering, given HPDI diesel equivalence, what kind of confidence that gives you and your launch partner, what that potentially looks like early, but then also as you look out three to five years?

Nancy Gougarty - Westport Fuel Systems - Chief Executive Officer

Well, I think, Eric, what we're finding is in the European market, as I mentioned, with some of the dynamics going on and some concerns relative to diesel and how it impacts the environment there, all these products, whether it's the Scania or IVECO products, spark-ignited, I think that this zero compromise product that we have with the HPDI is going to put us in very good stead. Its operating cost and its performance, the combination of those two we think is going to put us there.

We are quite pleased to be able to offer a product that has a bit superior performance over that of the SI. So, we think Europe is going to be a quite strong market. We see Spain, we see the U.K., we see Central Europe whether it's Germany or the Netherlands, and those places going to be great launch venues for us as we move here into the latter part of '17 and early '18, and we think that we're just going to continue to build on that as we work with other OEMs as well.

Eric Stine - Craig-Hallum Capital Group

Maybe just sticking with HPDI and the cost profile—and I know that you're not in charge of the price and I get that—but just from a high level, HPDI versus spark, I mean is it possible that you see an equivalent priced engine or potentially cheaper just given that there are many—the number of components is quite a bit less?

Nancy Gougarty - Westport Fuel Systems - Chief Executive Officer

Again, what we're finding on the spark-ignited, in many cases folks are using LNG as well, so they're having LNG tanking and that kind of thing. It's very hard for us to tell. I would say that as we get into third quarter we will have a better understanding of exactly what the prices are comparatively. But at this point in time, I think that, again, with the performance characteristics and that kind of thing we should be quite competitive.

Eric Stine - Craig-Hallum Capital Group

Got it, okay. Maybe last one for me, just on the light duty business. Last call you mentioned some outstanding tenders in various markets so maybe just an update on some of those, whether those are potentially 2017 events or whether those are more 2018.

Nancy Gougarty - Westport Fuel Systems - Chief Executive Officer

I would tell you that we have made progress on them. In certain cases there will be activity that will be in '17; in some cases, some of them will carry over to '18 revenue. But, you know, we had a—as we moved into Quarter 3, we did have some positive, I'll say shipments that were against one of our tenders. Andrea, maybe you could add some further colour? But it wasn't—it didn't impact our quarter 2 but it should have positive impact on our quarter 3.

Andrea Alghisi - Westport Fuel Systems - Chief Operating Officer, Automotive

Yes, as you mentioned, Nancy, we had the first time that we won for North Africa. We shipped that in July so you'll see the results in Q3. At the same time there, we had a further request and we won that for let's say the second part of the year, so you'll see the results in Q4 2017. Another tender for North Africa that we won are going to affect 2018, and then another one we are participating will be awarded let's say at the end of August, so that one will be shipped probably—if we win it—at the end of the year.

Eric Stine - Craig-Hallum Capital Group

Got it. Any way to talk about the magnitude of that or are these just kind of standard course of business tenders that you win on an ongoing basis?

Nancy Gougarty - Westport Fuel Systems - Chief Executive Officer

I would say the good news is that these are standard course of business. I think that with our—as we have combined and merged we're in a much stronger position because, first of all, we're not competing with Fuel Systems; Westport Fuel Systems is one team now. But we've got multiple brands that we can bring out into these different countries, so I think we're well positioned on all of these and these are all good opportunities for us. Based on how the countries do these, you know they come and go, but each year we're able to participate and we're very pleased this year we've had quite strong performance against the tender side.

Eric Stine - Craig-Hallum Capital Group

Okay, thank you.

Andrea Alghisi - Westport Fuel Systems - Chief Operating Officer, Automotive

Yes. Yes, exactly. That's normal course of business. Even though the one that we will ship in 2018 was the biggest ever happened, so 60,000 kits, so systems. Revenues there will be between $6 million and $8 million, so a pretty sizeable tender. But that's correct, it's a standard way of business. They are recurring tenders and as a combined entity now we're able to provide competitive prices and competitive products with all our brands.

Operator

That's all the time we have for questions today. I would like to turn the conference back over to Caroline Sawamoto for any closing remarks.

Caroline Sawamoto - Westport Fuels Systems - Manager, Investor Relations and Communications

Thank you to everyone for joining us today. If you have any follow-up questions, feel free to reach out to the Investor Relations team and we look forward to speaking with you again in early November. Thanks again for your interest in Westport Fuel Systems.

Operator

This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.