Operator

Welcome to the Westport Fuel Systems third 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 would 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 third 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 and Chief Operating 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 will now turn over the call over to Nancy.

NANCY GOUGARTY speaking
Chief Executive Officer, Westport Fuel Systems

Thank you, Caroline. Good afternoon, everyone, and thank you for joining us for Westport Fuel Systems third quarter results conference call. This was a good quarter for Westport Fuel systems. Compared to a year ago, our revenues and margins were up, our costs were down, and our balance sheet is stronger. Our team is making good progress on a number of fronts.

Before I report to you on our three business segments, I would like to speak to you about what we're experiencing on a macro level across the transportation sector. As you can see from Slide 2, the move towards zero emissions is no longer a secondary consideration. OEMs, governments and end users are asking for products to provide performance, energy efficiency and low climate impact. Fuel pricing differential is no longer the only key factor that drives adoption. Solutions need to provide economic benefits, as well as environment benefits, and our business is well positioned to realize this shift.

We know that there is a range of alternative fuel technologies under development and we think that there are a number of solutions that will take share of diesel. However, we know it takes many years to get through an R&D process and have a market-ready product, not just a concept. Our clear advantage is we have passed the proof of concept stage; our products are commercially available and able to meet the demands today and meet the requirements of the OEMs.

We see many countries that are assessing their future options and many choosing natural gas as their leading alternative fuel. We see growth in well-established refueling networks that already exist in many countries today; notably, in Europe and Asia. We are encouraged by this change and are aligning our business to take full advantage of the opportunity before us.

Let's get into the specifics of our three business units. Please turn to Slide 3.

Starting with the Automotive sector, this segment is doing well year to date. We are expecting our segment's revenue to be at the high end of guidance, in light of our current run rate. We see significant improvement in Adjusted EBTIDA margins, from the negative 0.2% last year to 6% this year. We have done this by consolidating our operations, transforming our manufacturing footprint, enhancing our product competitiveness, while improving our purchasing processes, managing our working capital and right-sizing our work force. We know from our decades in the industry that we always need to focus on our operational excellence, and we are taking the steps that are in our control which will continue to improve our overall performance and find additional savings. We expect the Automotive business to have a 7% to 10% Adjusted EBITDA margin in 2018, and beyond.

Turning to CWI, this joint venture serves us well. CWI had a great quarter, which Ashoka will speak to you in greater detail shortly. Our joint venture, CWI, is a complement to our other business interests in Europe and Asia. Our 50% ownership gives us U.S. market presence, particularly given that CWI is the leading—and in fact, the only—supplier in the medium and heavy-duty natural gas engines to OEMs in North America. This positions us well for the growing shift towards zero emissions in North America, particularly in California, which makes this state a critical market for us. This is evidenced by the recent Clean Air Initiative and related grant money, as well as the approval of the Clean Air Action Plan calling on ports to replace diesel trucks to near zero or zero emissions over the next five years.

In our Corporate & Technology segment, the biggest and most exciting news is that we have begun order fulfillment of our HPDI 2.0 commercial component. As you know, our technology is capable of running on renewable fuel, such as biogas, an alternative fuel for diesel pilot fuel, which cuts CO2 emissions by up to 100%. This is supported by an early October announcement of the availability of an LNG gas truck in Europe. Much of the launch was highlighted on the fuel efficiency and performance, which is on par with a diesel truck, but a much lower climate impact.

I expect that many of you have questions about our go-forward sales outlook, but as many of you know, this is not information a tier-one supplier can provide. However, we encourage you to follow along with the OEMs market, as they market their new vehicles.

It is certainly exciting our hard work come to life through HPDI 2.0, and this reinforces how innovation is key to who we are. Our R&D pipeline is strong, whether it's HPDI, cryogenics, high-efficiency spark-ignited, or next generation products. Some are in early development stages and some are in advanced testing stages, but there is more to come.

Turning to Slide 4, in addition to reporting on our three business segments, I would like to speak to you about our progress towards reaching positive Adjusted EBITDA in early 2018. A few steps that we're taking that will help us reach this goal include:

First, we have improved the Adjusted EBITDA margins in our Automotive business, as some of the initiatives put in place over the past year take hold and we work to streamline our operating costs.

Secondly, we have lowered our R&D spend on our Corporate & Technology segment, concurrent with the launch of HPDI 2.0. This is combined with what I have said before, which is a shift in our R&D funding model to where our partners carry the mass majority of the spend.

Third, we've made cost reductions in our administrative and general costs over the past year and continue to take steps to right-size this spend.

Finally, we see improvements in terms of the contributions from CWI with their new engines, coupled with lower R&D spend at the joint venture.

I now would like to hand things over to Ashoka to provide specifics on our Q3 financials before I provide final thoughts at the end of the call. Ashoka, over to you.

ASHOKA ACHUTHAN speaking
Chief Financial Officer, Westport Fuel Systems

Thank you, Nancy. I'll begin with Slide 5, which provides a summary of our third quarter financial performance. The third quarter of 2016 was the first full quarter of the combined operations post merger; therefore, this is the first comparable quarter on a year-over-year basis. Overall, we saw improvements across the board, increased revenue, improved gross margin and strong Adjusted EBITDA performance. Our balance sheet was also strengthened by the US$29 million gross proceeds received from the equity issuance in July, which allowed for the repayment of the CDN $55 million debentures on September 15 of this year.

Moving on to our Automotive segment, on Slide 6, as a reminder, the transactions in our Automotive business are mostly denominated in euros. Compared to a year ago, the euro strengthened by approximately 5% against the U.S. dollar. Automotive revenues were up year-over-year. Even excluding the foreign exchange impact, we saw improved aftermarket sales in all geographical areas, with the exception of South America. Revenues were down slightly from the second quarter of 2017, but as we discussed at the last call, the third quarter is typically a weaker quarter due to summer holidays and model year changeovers. Gross margins were 24% in the quarter, a substantial improvement from a year ago, due to operating efficiencies generated through post-merger synergies and lower inventory provisions. Year-over-year SG&A costs were slightly higher, mostly due to foreign exchange impacts, and an increase in bonus accruals and some bad debt expense. Automotive segment R&D was $1.1 million lower than the third quarter of 2016, primarily due to portfolio rationalization. The third quarter of 2017 Adjusted EBITDA for the Automotive segment was $3.8 million, or 6% of revenues, compared to a loss of $1.2 million in the third quarter of 2016. As Nancy pointed, we continue to take steps to improve our performance in this segment and we remain well on track to reach our target Adjusted EBITDA margins of 7% to 10% in 2018, and beyond.

Overall, in the Automotive market, we continue to see strength, in particular in Turkey and Eastern Europe, and actually some improvement in Argentina since the beginning of this year as well. We are also seeing good order flow from some OEMs in Europe and India, and increasing orders for our hydrogen components. As Nancy commented earlier, we remain confident that we will meet our Automotive revenue guidance of $200 million to $230 million, and, in fact, with the current run rate we are seeing, we expect to finish the year towards the higher end of this range. Looking ahead to the fourth quarter, the timing of some shipments, including part of the NAFTAL award in Algeria, and the impact of foreign exchange fluctuations caused us to be a little conservative in our outlook.

Turning to Slide 7, which shows the results of CWI, our joint venture with Cummins. Revenues were up year-over-year, as the refuse market remains strong, and we are seeing continued improvement in the trucking business. This was offset by some weakness in international market and the school bus segment. Gross margins of 37% were up on higher parts revenue contributions and a favourable warranty adjustment, which was a direct result of quality upgrades put in place to improve product reliability and durability over the past years. Net income of $11.6 million more than doubled, compared to the same period last year, as a result of higher unit sales, increased gross margins, lower operating expenses and a lower effective tax rate. 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 onboard diagnostics and developed zero-equivalent emission engines. This development work is now nearly complete and we expect to see a significant decline in these spending levels in upcoming years.

Turning to Slide 8, which shows our R&D and SG&A expenses from our Corporate & Technology segment, total R&D spending, the majority of which is related to our HPDI 2.0 program, was $9.1 million, down 3% year-over-year and down 9% sequentially, due to the timing of certain expenses. We expect R&D to remain around these levels in the fourth quarter, as we complete our HPDI 2.0 launch. We are, however, targeting 2018 R&D run rates to be about half of that of 2017. Our SG&A expenses were down 32% year-over-year, mainly from nonrecurring merger-related costs and restructuring activities incurred in 2016. Right-sizing our cost structure remains a key priority. We will continue to take appropriate steps, as required, to align costs with our revenues.

Turning to Slide 9, which shows our quarterly cash walk, starting with $87.7 million as of June 30, 2017, cash used in operations and working capital was $7.2 million. We received $5.3 million in dividends from our CWI joint venture. We had cash costs related to restructuring activities and transaction fees of $9.9 million. Capital expenditures were $3.8 million, mainly related to equipment purchases to support HPDI 2.0 production. We received a net of $26.0 million from the July equity offering. We had debt repayment of a total of $47.0 million, which included the payoff of our Canadian debentures and a prepayment of royalties to address our collateral obligations to Cartesian Capital. We closed the quarter with $51.1 million in cash.

With that, I will turn over the call to Nancy for final remarks.

NANCY GOUGARTY speaking
Chief Executive Officer, Westport Fuel Systems

Thank you, Ashoka, and now we'll move to Slide 10. In closing, I want to bring your attention to several items. Our technology is market-ready today to meet the changing political and public demand for better environmental performance and lower climate impact. We are adjusting to our new smaller size and we are achieving this through operation consolidation, restructuring and asset sales. With the strategy we have in place today, we're on the path towards becoming a profitable, sustainable company, starting with achieving positive Adjusted EBITDA in early 2018. Finally, we are focused on our commitments to our shareholders and we will continue to provide updates on our progress as decisions are made and results are achieved, as evidenced by our HPDI 2.0 launch.

Thank you for your continued support and thank you for taking time to join us today. I look forward to speaking to you soon. I will now turn the call back to the Operator for the question and answer session.

Operator

Thank you. We will now begin the question and answer session. Analysts who wish to join the question queue, 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.

Our first question comes from Eric Stine with Craig-Hallum. Please go ahead.

Eric Stine - Craig-Hallum Capital Group

Hi, Nancy. Hi, Ashoka.

Ashoka Achuthan - Westport Fuel Systems - Chief Financial Officer

Hi, Eric.

Eric Stine - Craig-Hallum Capital Group

Hi. I just wanted to start with HPDI. Volvo's now talking about that LNG is the solution for the next 20 to 30 years, infrastructure development in place and underway. Maybe, can you just talk about, beyond Volvo, you know, how discussions maybe over the last six months to a year have evolved, whether it's just because of the macro-environment or sort of competitive reasons?

Nancy Gougarty - Westport Fuel Systems - Chief Executive Officer

Eric, let me make a stab a this and Ashoka can weigh in, as well, but I would tell you that there are lot of dynamics that are going on in the industry that make HPDI a very favoured technology at this point in time. Obviously, the whole sense around alternatives to diesels—and when you get like-diesel performance like we do with HPDI, this is always a good offering. I would tell you the interest, as you can imagine, with the activities going on in Europe and the launch of the LNG truck, we have—obviously, our phones are ringing and people are quite interested in that, but I would tell you that we're finding general interest across the globe also in light- and medium-duty, as well, and some of our other technologies, because people are really looking for solutions that are lower climate impact, and I think, in general, we're just seeing a big trend. Fuel pricing is starting to climb, that also helps us. There's a variety of different things that are bringing good opportunities to Westport.

Eric Stine - Craig-Hallum Capital Group

Got it, and maybe just sticking with that, in terms of other markets beyond Europe, I know you no longer give volumes for Weichai Westport, given the percentage that you own, but clearly that market has strengthened quite a bit over the last year. Any update you can give on that market for HPDI? I know you were working with Weichai, and you may still be, but just an update on how China is shaping up for HPDI.

Nancy Gougarty - Westport Fuel Systems - Chief Executive Officer

Well, as we look at any market, big users of LNG are, obviously, areas of our target. China being one of the major markets that is currently using LNG as one of the bigger fuels, whether it's on newer technologies, like HPDI, or whether it's on other applications through the joint venture, the natural gas engines, other or offerings in the market, so I would say China still, because of their infrastructure, is a key market for us and we continue to understand what's happening in that market, not only with the current production, but also with what we're seeing in the intent as we move forward, and, again, low climate impact products are front and centre to the government's thinking, and that always accelerates things in the China market.

Ashoka Achuthan - Westport Fuel Systems - Chief Financial Officer

The only thing I'd add to that, Eric, is that the Weichai joint venture, although we don't equity consolidate, like we did in the past, we still have a significant interest in the company, and as a customer, as well. As you probably know, they are having an extraordinarily strong year, and if current run rates are any indication, they could exceed the unit volumes that they saw in 2014. So, things are looking good for the joint venture and the Chinese truck market, in general, this year.

Eric Stine - Craig-Hallum Capital Group

Got it, and maybe last one for me, and I can appreciate that as a tier-one supplier you can't talk about volumes, but I am curious. I know there's been some talk of potentially the European launch, you know, being able to be shipped to Canada, because I know people like Vedder and some other fleets, there's a pretty high level of interest, and there has been, of people still using HPDI. Is there any update there as we think about volumes next year, the potential that some of those European volumes could also go to Canada?

Nancy Gougarty - Westport Fuel Systems - Chief Executive Officer

I would tell you, Eric, obviously, for the people that have used our HPDI 1.0, they're some of our biggest advocates, and we have, as you mentioned, Vedder, these guys have really truly appreciated the products that we introduced, you know, all the way back to 2008. I would say that if we can find a way to be able to successfully do that, I would guess—and we can have the right discussions with the OEMs, I think that there's no reason to think so. But, as you know, road regulations, and those kinds of things, have to be met in the different jurisdictions, and at this point in time we are having conversations in Ottawa and other places, in order to be able to understand what is possible. But, I would tell you that we're putting our efforts that way and if we can find and be able to support the folks like Vedder and Robert, our good, long, loyal customer base, we'd love to be able to do that.

Eric Stine - Craig-Hallum Capital Group

Okay, that's great. Thanks.

Operator

Our next question comes from Rob Brown of Lake Street Capital Markets. Please go ahead.

Rob Brown - Lake Street Capital Markets

Good afternoon.

Nancy Gougarty - Westport Fuel Systems - Chief Executive Officer

Good afternoon, Rob.

Ashoka Achuthan – Westport Fuel Systems – Chief Financial Officer

Hi, Rob.

Rob Brown - Lake Street Capital Markets

Hi. I know you can't talk about volumes with Volvo, but now that you've got it launched into the market, what's sort of the—how can you characterize customer interest and sort of marketing plans at this point?

Nancy Gougarty - Westport Fuel Systems - Chief Executive Officer

Rob, I would tell you that, you know, I'd really need to turn you back to the OEMs to have that dialogue. I think that there is, obviously, I'll say, excitement around the LNG truck and I think that with a clean, environmental footprint and performance characteristics, and that kind of thing, you probably can have a really good dialogue with all the OEMs in Europe in terms of what they're offering in terms of alternate fuel. I think that HPDI happens to be a very superior solution because of the fact that you get such good performance from it and a very uncompromised diesel drive, and as more people get behind the wheel and see this, I think it is just confirming for what we knew during the test cycle. But, I would really encourage, from the OEM perspective that you perhaps chat with the various OEMs, specifically, in the European market.

Rob Brown - Lake Street Capital Markets

Okay, that's good, thank you. On your Automotive business, FX helped a little bit, but I think it was a pretty strong growth rate even ex that. Do you have kind of a constant currency growth rate and then maybe some more colour on what's driving that? Is it oil prices going up or are there other market dynamics out there?

Nancy Gougarty - Westport Fuel Systems - Chief Executive Officer

I'll start it and I'll hand it over to Andrea a little bit, but I would say that we're seeing a combination of things happen. Obviously, as we look at the product offerings and us, and even a significant, I'll say, interest on a variety of different people to offer natural gas vehicles as part of their portfolios, that's driving it, but I would tell you that, in general, I think that our brands are the go-to brands and we're getting great reception in terms of the products that we have, as well as the kinds of service our distribution network gives us in the independent aftermarket. So, the combination of the OEM side, as well as the aftermarket side, is really driving it. Andrea, you might want to add further colour to that.

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

Yes, Nancy. Thank you, Rob, for the question. As Nancy was mentioning, it's a combination of factors. In our aftermarket channel, we see, let's say, an interesting growth in some geographical areas, in particular, in Eastern Europe and Turkey, as Ashoka was mentioning. Also, in South America, Argentina, which was where we suffered a huge downturn at the beginning of the year, is now, let's say, showing signs of recovery. On the OEM side, we see strong interest in CNG, and also in LPG, completing the product portfolio for alternative fuels, in particular, from, I would say, European OEMs, and also Indian OEMs. So, it's a combination of factors. Some brands, as Nancy was mentioning are performing really well and are giving us really good results. You see them on the top line, as you commented.

Rob Brown - Lake Street Capital Markets

Okay, thank you, and my last question is on CWI. It had a very good earnings contribution this quarter. What's sort of your sense on sustainability of that at this point, and then maybe some colour around the significant kind of decline you expect in some of the spending there?

Nancy Gougarty - Westport Fuel Systems - Chief Executive Officer

So, Ashoka, do you mind helping Rob on that?

Ashoka Achuthan - Westport Fuel Systems - Chief Financial Officer

Yes, let me take that, Rob. Yes, no doubt, a very strong quarter, but like I mentioned, we had a very significant impact on account of our warranty accrual adjustment. Now, all that is absolutely good news, because it goes to prove that all the costs that we had incurred in past years, and all the efforts we have put into product durability and reliability are paying off. Having said that, I must caution you that, you know, a 37% gross margin is not something that I would recommend you model the out years on. A more reasonable number would be where we were historically at the gross margin level.

On the spend, we've had significant spend this year and last year related to OBD compliance work that needed to be done to make our trucks—to make our engines compliant from January 1, 2018. That is significantly behind us. Just as importantly, we, as you know, have been working on these zero-equivalent engines, the 8.9 and the 12-litre, in particular. Most of the spend related to those engines are also behind us, and the 6.7-litre engine has been launched earlier this year, so that, I expect will contribute a very significant decline in both our R&D and our sales and marketing expenses going forward.

Rob Brown - Lake Street Capital Markets

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

Operator

Our next question comes from Colin Rusch of Oppenheimer & Company. Please go ahead.

Colin Rusch - Oppenheimer & Company

Thanks so much, guys. Maybe I missed it here in some of the dialogue, but I'm curious why you're not raising the floor on your guidance here for the Automotive segment, given kind of what the implication is of the range.

Nancy Gougarty - Westport Fuel Systems - Chief Executive Officer

Well, I would say—Colin, thanks for the question—from our perspective, when we gave the guidance, we knew it was quite broad. We believe as we move into the fourth quarter, that we can see from the run rate that we're at the point that we believe will be to the high end of it. We didn't feel that it was really necessary to change the floor on it. We felt that at this point in time that we were going to hold with the guidance we gave and the range that we gave initially in the year. But, I appreciate your opinion on it.

Colin Rusch - Oppenheimer & Company

Fair enough. I may have some follow-ups on that coming offline. Then, just from a working capital management perspective, it looks like there's still some meaningful opportunities to mine the balance sheet for some cash. Can you talk a little bit about your expectation on that as you go through the balance of this year and into the first part of 2018?

Nancy Gougarty - Westport Fuel Systems - Chief Executive Officer

I'll kick it off and then I'll hand to Ashoka. Ashoka certainly has lots of thoughts on this, as he leads us through many of the balance sheet things. I would tell you that, as you know, we started this calendar year out indicating that we were going to do a full assessment of the portfolio. We've done that. We've taken lots of different actions on the portfolio. I think that we're not—how do I say it? We continue to look for opportunities relative to our businesses and how they fit and what the market dynamics are, and we'll continue to evaluate each business based on its opportunities, and those kinds of things. So, with that, we'll continue to look. But, I think that one of the things that we've tried to do on the balance sheet as we have moved through the year, obviously, is just really trying to make sure that we are getting the value out of the assets we have, and we are well positioned, in terms of getting our spending down, in order to keep our cash balances at relatively higher levels than what we have over the past years.

Ashoka Achuthan - Westport Fuel Systems - Chief Financial Officer

Yes, I would absolutely second everything Nancy just said. Yes, we continue to work through our working capital structure across the organization. Obviously, Colin, with the HPDI 2.0 launch just having occurred, we are working through and managing through the working capital implications of that business, which we had not had in the past. But, we continue to work and institute pretty rigorous working capital management procedures and policies across the board, particularly in Europe, and while we are doing that, we continue to scan our portfolio for opportunities for additional non-core asset sales, should that opportunity arise, as well.

Colin Rusch - Oppenheimer & Company

Okay. Thanks so much, guys.

Operator

As a reminder, to join the question queue, you may press star, then one. Our next question comes from Jeffrey Osborne of Cowen & Company. Please go ahead.

Jeffrey Osborne - Cowen & Company

Yes, good afternoon, guys. Most of my questions have been answered, but maybe, Ashoka, I was just wondering—as it relates to maybe following up on Colin's question, I think you had referenced the Algeria contract potentially slipping into next year, as well as some FX headwinds. Is there a way you could quantify those as it relates to the Automotive segment?

Ashoka Achuthan - Westport Fuel Systems - Chief Financial Officer

Sure. I think we've gone on record as saying that that order is in the range of US$6 million to US$8 million, a significant order for that country, and most of which is going to be fulfilled in 2018, which also accounts for the caution we have in the fourth quarter in terms of timing of revenue recognition.

Jeffrey Osborne - Cowen & Company

Got it. Then, this early in the quarter, is there any—you don't give a lot of granularity about all of the different end markets that you serve, relative to the disclosure that Fuel Systems used to give as a public company, but can you just touch on what you're anticipated FX headwinds are? At least thus far, is there anything out of the norm that would be noticeable for the fourth quarter?

Ashoka Achuthan - Westport Fuel Systems - Chief Financial Officer

No, nothing out of the norm. We're watching exchange volatility. As I mentioned, most of our European business is euro-denominated and—

Nancy Gougarty - Westport Fuel Systems - Chief Executive Officer

Naturally hedged, yes.

Ashoka Achuthan - Westport Fuel Systems - Chief Financial Officer

Yes, naturally hedged, because most of our input costs are euro-denominated, as well, but, nevertheless, it does have an impact on our revenue numbers. Outside of some massive geopolitical shakeup or some macro-economic factors, I think we have a fair amount of transparency into what the upcoming quarters look like, and we are reasonably optimistic.

Jeffrey Osborne - Cowen & Company

Makes sense. I just had two more, another one for you, Ashoka, and then maybe one for Nancy. Just on the R&D side, can you just talk about the cadence through next year? There's obviously a lot of drivers to drop the R&D spend as HPDI 2.0 ramps up, but should we think about, you know, like Q1, like a massive drop and then kind of flat-line at a 50% reduction for the year, making that math work, or is it a gradual sliding down of R&D to have the total net number in 2018 being a 50% drop? I'm just trying to get a sense of what that slop is.

Ashoka Achuthan - Westport Fuel Systems - Chief Financial Officer

Yes, it's more biased towards the latter, Jeff, as you can expect. We are in the middle of this launch and fulfilling the orders from our Automotive OEMs. That will play out this quarter and next, and the products will be available for sale, at least the order books will open the early part of next year. So, it is going to be a little gradual, but a clear bias towards a downward trajectory.

Jeffrey Osborne - Cowen & Company

Despite that, you still feel comfortable with a first-half EBITDA-positive status, even though the R&D drop will be mainly in the second half?

Ashoka Achuthan - Westport Fuel Systems - Chief Financial Officer

That continues to be our target, Jeff, and we are working towards that.

Jeffrey Osborne - Cowen and Company

Got it, and then the last one is just for Nancy. You've got a high-profile electric truck being announced later this week, and we've seen some interest in the fuel cell industry, as well, so certainly a lot of excitement and buzz around carbon-reduction strategies for the trucking industry, but do you have any high-level views as how natural gas compares to those other two solutions on a cost-per-mile basis, or the pros and cons, as you're out there discussing the merits of an LNG-based or CNG-based fueling infrastructure system versus electric and fuel cell?

Nancy Gougarty - Westport Fuel Systems - Chief Executive Officer

Jeffrey, I'm probably not the most qualified to talk through it on a per-mile basis, but I will tell you the one thing that we have and why we're seeing the interest we are in natural gas is that we're ready now, so we don't need to go through the concept of proof, like some of the other technologies need to. I would say, in general, at this point in time, the costs that we are able to do for HPDI, and offer even on some other technologies, whether it's on the light-duty side or heavy-duty side, you know, were within—in most cases, were 24 months or less in terms of their payback. It is my understanding, when you start getting into fuel cells and electric and on a per-kilowatt hour, the cost of those systems, especially when you're getting into, I'll say, a heavy-transport environment, the costs of those are quite expensive. I'm just not in a position I can give you a direct comparison, but I would suspect, based on what I do know, that natural gas solutions are quite, I'll say, economic.

We see this—I would say that even in the discussions, as we talk to transit companies, whether it's LA Metro, or those kinds of folks, as they are looking for their fleet, we also hear that they think natural gas is a cost-effective solution for them, both in fueling, as well as in the base cost of the buses, and those kinds of things. But, I would encourage you to perhaps reach out to some of those folks that are currently running both electric and natural gas and get their view.

Jeffrey Osborne - Cowen & Company

Got it. No, we've done that. Certainly, LA has made a big investment in their own refueling infrastructure, but some of the more recent municipal bus RFPs have actually gone electric, so that's I was just curious as it related to—

Nancy Gougarty - Westport Fuel Systems - Chief Executive Officer

Yes, I think everybody's tried, but we have—CWI, as I understand, has got a very sizeable order, as well, recently, relative to some transit, where they're rebuilding some engines, et cetera. So, I think there's at this point in time, you know, a variety of different solutions, as I mentioned. We just happen to think that natural gas is more ready now, both in terms of the technology, as well as the price.

Jeffrey Osborne - Cowen & Company

Makes sense. Appreciate your insights. Thank you.

Operator

There are no more questions at this time. I would like to turn the conference back over to Ms. 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 Westport Fuel Systems Investor Relations team. Thanks again for your interest in Westport Fuel Systems. Have a good day.

Operator

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