
Operator

Welcome to the Westport Fuel Systems Fourth Quarter and Fiscal 2017 Financial Results 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 at Westport Fuel Systems. Please go ahead.

CAROLINE SAWAMOTO speaking Manager, Investor Relations and Communications, Westport Fuel Systems

Thank you and good morning. Welcome to Westport Fuel Systems Fourth Quarter and Fiscal 2017 Conference Call, which is being held to coincide with the press release containing Westport Fuel Systems financial results that went out last night. On today's call, speaking on behalf of the Westport Fuel Systems is Chief Executive Officer Nancy Gougarty, Chief Financial Officer Ashoka Achuthan, and Vice President Human Resources Duane Radcliffe. 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 morning and thank you for joining Westport Fuel Systems 2017 Fourth Quarter and Year-End Results Conference Call.

Two thousand and seventeen was a transformative year. We strengthened all aspects of our business and laid a foundation for a future of profitability and growth. We achieved everything we set out to achieve and more. We launched Westport HPDI 2.0™, ready now. You will hear these words often from us as we move forward since many future solutions are in the media these days. Our fully integrated solution offers our long haul customers solution performance and environmental that they need. The market is ready for our environmentally friendly, no compromise performance technology; and by the way, our customers' official order book is now open.

Secondly, we focused on our portfolio and alignment of our resources. With the completion of our portfolio assessment, we divested of our industrial business for \$87.5 million in two separate transactions in quarter two 2017. This has given us a sharper focus. Our new organization structure will simplify our organization by ensuring better use of our resources, especially R&D, purchasing and IT, and draw the organization together as one.

Thirdly, we strengthened our financial and cash position. We orchestrated a number of transactions designed to restructure our debt. We reduced our debt and extended maturities in line with our business. The \$20 million loan received in December positions us well as we move forward in our commercial launch of HPDI, impacting our working capital needs. We further strengthened our cash position by capturing over \$30 million of post-merger synergies a year earlier than planned, also maintaining a strong focus on our working capital, especially inventory, with our inventory turns nearing five for our manufacturing businesses.

In summary, the key 2017 takeaways from me are that we are moving forward into 2018 in a stronger position that will enable us to capture and capitalize the opportunities in front of us. We are very pleased with what we have accomplished but we must keep driving forward. After hearing from Ashoka on our financial performance, I will speak to you about Westport Fuel Systems strategy as we move beyond 2017.

Ashoka, over to you.

ASHOKA ACHUTHAN speaking Chief Financial Officer, Westport Fuel Systems

Thank you, Nancy. I will begin with Slide 3, which provides a summary of our fourth quarter financial performance. Please note that my comments will focus on the fourth quarter of 2017 compared to the fourth quarter of 2016 as the full years are not comparable because of the merger with Fuel Systems Solutions on June 1, 2016.

The fourth quarter of 2017 was significantly improved from a year ago: increased revenue, higher gross margin, improved Adjusted EBITDA performance, and we exited the year in a much stronger financial position. We are pleased with our accomplishments of 2017 and look forward to building on it for even better performance in 2018. The Company is on track to achieve positive Adjusted EBITDA during the second quarter of 2018, driven primarily by a reduction in R&D expenses related to the HPDI 2.0 program and improved performance at our joint venture, CWI.

Moving on to our Automotive segment on slide 4, revenues in the fourth quarter of 2017 were up 5% from the same period a year ago, and total automotive revenues for 2017 were \$239.4 million, above the high end of our guidance. The fourth quarter was helped by a stronger euro versus the U.S. dollar as the transactions in our Automotive business are mainly euro-denominated. In addition, we saw an uptick in OEM sales in the quarter and we recognized some revenue from the shipments related to the NAFTAL award in Algeria. 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.

R&D and SG&A were relatively flat compared to the fourth quarter of 2016 despite the strengthening of the euro against the U.S. dollar. Note that a vast majority of R&D and SG&A expenses within the segment are incurred in euro.

The fourth quarter of 2017 Adjusted EBITDA for the Automotive segment was \$3.5 million or 5.6% of revenues, versus \$400,000 or 0.7% of revenue in the fourth quarter of 2016. Overall in the automotive market, we continue to see strength in particular in Asia Pacific and strong recovery in Argentina. We also see a good auto flow from OEMs in Europe and an increase in orders for our hydrogen components as well.

Turning to slide 5, which shows the results of CWI, our joint venture with Cummins,. Revenues were up year-over-year as the refuse and transit market remains strong and we see continued improvement in trucking. In addition, the fourth quarter of 2017 was helped by significant pre-buy activity ahead of the 2018 on-board diagnostics, or OBD compliance requirements. Gross margins of 34% remain strong on higher parts revenue contributions and lower warranty costs, which is a direct result of quality upgrades put in place to improve product reliability and durability over the past years. As a result of the changes in U.S. tax law in December 2017, CWI recorded a \$13.4 million non-cash deferred tax expense, bringing net income for the period to a loss of \$700,000. Excluding this non-cash tax charge, net income would have been \$12.7 million in the fourth quarter of 2017.

With the new range of zero-equivalent engines and most of the OBD spending behind us, we are encouraged by the outlook for CWI. It is, however, important to note that due to the pre-buy activity in the fourth quarter and the vehicle readiness work required by OEMs to integrate the new OBD compliant engines, we are expecting a weak first quarter for CWI in 2018.

Turning to slide 6, which shows our R&D and SG&A expenses for our corporate and technology segment, both R&D and SG&A were negatively impacted for the quarter and the full year by unfavourable foreign exchange rates of the Canadian dollar and the euro against the U.S. dollar; however, with the launch of the HPDI program, as anticipated, we are beginning to see significant reductions in R&D expenditures. Although SG&A in 2017 was lower by \$6.3 million versus the prior year, the fourth quarter of 2017 did have an uptick due to performance bonus accruals and certain legal fees. Right-sizing our cost structure remains a key priority. We will continue to take appropriate steps as before as needed to align costs with our revenues.

Turning to slide 7, which shows our cash walk for the quarter, starting with \$51.1 million as of September 30, 2017, net cash inflows from operations and working capital was \$7.3 million. We received \$5.8 million in dividends from our joint venture with Cummins. We had cash costs related to restructuring activities of \$3.2 million. Capital expenditures were \$8.1 million, mainly related to equipment to support HPDI 2.0 production. With this, we have the bulk of our HPDI-related capital expenditures behind us. In December, we received net proceeds of \$19 million from the EDC loan, and we closed the quarter with \$71.8 million in cash.

Turning to slide 8, as stated in the press release, we have a new reporting structure as of January 1, 2018. Since the merger, we have taken a number of actions to streamline and reorganize our businesses to better serve our customers, further integrate our product offerings, and reduce our operating costs. The new reporting structure is the next step in that process. Under this structure, Westport Fuel Systems will manage and report results of its businesses through three segments: Transportation, the CWI joint venture, and Corporate. The Transportation segment will consist of the previous automotive segment with the addition of the HPDI 2.0 product line, technologies such as high efficiency spark ignition, or HESI and electronics, current and advanced R&D programs, supply chain, and product planning activities. CWI will continue to be operated and reported as a separate segment as it is today, and the Corporate segment will be responsible for all public company activities, corporate governance and oversight, and general administrative functions.

With that, I would like to turn the call back to Nancy.

NANCY GOUGARTY speaking Chief Executive Officer, Westport Fuel Systems

Thank you Ashoka, and I'm now on slide 9. There are tremendous opportunities in front of us. Just look at how the dialogue around clean energy solutions has evolved. It is no longer just about fuel pricing and neat technologies. Instead, it is about increased demand for clean vehicles and greater urgency for market-ready solutions that we have, as well as our innovation and expertise.

With our portfolio offering, kits for aftermarket, zero kilometre conversions, OEM solutions, and of course for trucking our HPDI 2.0 as well as our high efficiency spark ignited products, plus CWI, we are poised now to serve the market's needs for clean energy products. Consumers and fleets want green solutions, and our strategy is built squarely on our customers' needs. Four simple strategies: advance technology leadership and solutions, focus on market and customer demand, thirdly streamline operations and drive efficiency, and lastly leverage key partnerships.

In 2018, we work to advance the strategic priorities in the following ways. Firstly, we will advance the technology leadership by broadening our product offerings. We are accelerating development activities, and to give you a few examples of new and supporting technologies, by using our knowledge of the 600 to 800 bar pressure system solutions, Westport Fuel Systems is advancing the development of higher pressure HPDI systems to support OEMs who have increased their power train efficiency performance. We are also working on direct injection systems and injector solutions for our independent aftermarket kits to support passenger car advancements on the power train.

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We are also advancing our capabilities on existing technology, including high and low pressure hydrogen components for fuel cell vehicles and HESI spark ignited products, an area of increased demand. Let me stress that we have learned from our past and we will carefully evaluate investments and manage capital requirements for these exciting market opportunities.

Secondly, we are focused on the market and the customer demand by employing market-ready solutions. In 2018, we have improved our agility within Westport Fuel Systems to address the increased demand for market-ready solutions from cars to heavy duty trucks and off-road products. The good news is in the medium duty space, we are operating from a strong position. In North America, our CWI joint venture offers near zero emissions which enables us to compete with electric vehicles and win bids for major transportation contracts. These solutions are ready now.

In China, Weichai Westport joint venture is a leader in the natural gas market. In Russia, Westport Fuel Systems is a major system supplier, component supplier of solutions for Russian trucks and buses using CNG components and systems, plus next generation solutions are underway. In India, just last year alone, more than 20,000 natural gas vehicles had Westport Fuel Systems ECUs, engine management systems and regulators, and more than half of the vehicles are using our injector solutions.

Thirdly, we are streamlining our operations and driving efficiency and continuing cash management focus. By simplifying business processes and value chain, we are becoming more efficient. We continue to build on our back-to-basics manufacturing initiative to drive lean, flexible and agile manufacturing processes.

Fourth and our last 2018 priority is leveraging key partnerships that can increase engagement with key OEMs, governments and industry partners. As you have heard me say many times, it takes a village to support the clean energy transportation sector. In 2018, we will continue to invest in key relationships that will broaden our customer base, which validates our technology and reduces our spending through third party funding. We will build on the successes to date, such as government relationships that have helped us develop items like the Blue Corridor in Europe.

I would like to hand it over to Duane Radcliffe, Westport's Vice President of Human Resources, to provide you an update on organizational changes and our step to build on our successes over the next two years. Duane, over to you.

DUANE RADCLIFF speaking

Vice President, Human Resources, Westport Fuel Systems

Thank you, Nancy. From a Human Resources perspective, our goals are to ensure our most valuable resource, our talented people, are appropriately aligned with our strategy. We are developing and retaining our key employees. We have the right leaders in place for the next phase of our growth. Our ability to navigate the significant challenges we faced is directly attributed to having the right talent and leaders in place for the Company. We have been implementing a succession plan to ensure leadership structure and talent level is in place to lead Westport Fuel Systems into the next phase of growth.

We've been planning for leadership transformation since back in 2013 when we hired our team of seasoned career industry experts. We have been able to grow internal talent and mentor our team, as evidenced by the appointment of Bart van Aerle as President of CWI. In addition, leadership changes in our light duty and heavy duty OEM businesses have occurred. We continue to attract innovative, entrepreneurial and customer-focused individuals.

As mentioned in our press release, Ashoka has indicated his plan to step down as CFO. An active search process is underway and he will stay fully engaged until his successor is in place and an orderly transition is complete.

With that, I hand back to Nancy for concluding remarks.

NANCY GOUGARTY speaking Chief Executive Officer, Westport Fuel Systems

Thank you, Duane. Ashoka, I certainly will miss you, as will others. We all thank you, Ashoka, for your leadership and your dedication during many of our challenging times.

In closing, I would like to focus on execution against the 2018 priorities. We see our way to further secure our global leadership in alternative fuel solutions, systems and components, further strengthen our financial position, and further focus on the customer as well as move Westport Fuel Systems forward on a path to long-term value creation as a sustainable profitable company.

I do want to thank you for your continued support and for taking time today. I will now hand the call over to the Operator for questions.

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 speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two.

Our first question comes from Eric Stine of Craig-Hallum.

Eric Stine - Craig-Hallum Capital Group

Good morning everyone.

NANCY GOUGARTY speaking Chief Executive Officer, Westport Fuel Systems

Morning

ASHOKA ACHUTHAN speaking Chief Financial Officer, Westport Fuel Systems

Morning Eric.

Eric Stine - Craig-Hallum Capital Group

I know you're not guiding to specific revenues in the new Transportation segment, and I can appreciate that given the changes that you're making to that structure; but I'm just wondering if you could provide any commentary or expectations

for that base business. Is there any—obviously you saw some very positive trends in the second half of 2017. Any reason to think that those trends do not follow through into 2018?

NANCY GOUGARTY speaking Chief Executive Officer, Westport Fuel Systems

Let me start, Eric, and then Ashoka, if you can add some other points to it, feel free. Eric, we are—I mean, it's very interesting. The environment that we're living in today. I think that some of the dynamics that we've seen around the anti-diesel sentiment have changed pretty significantly over the last many months as we have certainly gained speed through calendar year 2017. I would tell you that our businesses, especially independent aftermarket, continues to benefit from that, so I think that as we get in and have the opportunity to speak in a few weeks around what we're seeing in quarter one, we'll be able to talk more openly about it. But yes, I think that at this point in time, the trends that we saw in calendar year 2017, the latter part, we're quite, I'll say comfortable thinking that those are going to continue into the first part of '18. How long they continue, I think again we have to continue to monitor and really understand what's happening in the market. So much dynamic is changing pretty quickly here on us.

ASHOKA ACHUTHAN speaking Chief Financial Officer, Westport Fuel Systems

Yes, and what I'd add, Nancy, is Eric, as you know, we operate in over 70 countries, and the dynamics of each region is different. They tend to self-hedge, so to speak, from time to time, so—and we are seeing strength in Asia Pacific, Eastern Europe, so all that is positive. However, do note that we were significantly helped by the strong euro in 2017 versus 2018, so a good portion of the increment you are seeing has to do with the strength of the euro, and as I mentioned, most of the revenues of the Automotive segment are euro-denominated, so you just want to keep that in mind.

Eric Stine - Craig-Hallum Capital Group

Okay, thanks for that. Maybe just turning to China, I'm curious - I know that you no longer break out Weichai Westport volumes, but just maybe high level commentary on what you're seeing there, just trying to judge what is going on in the Chinese market and how that sets up for potentially being there with HPDI. I guess as part of that, just an update on where things stand in the negotiations with Weichai.

NANCY GOUGARTY speaking Chief Executive Officer, Westport Fuel Systems

Well, I think that, as you know, China continues to be a market that uses natural gas vehicles pretty sizeably, and I would say that Weichai Westport last year had a quite good year relative to—I'll say engine uptake, relative to supporting that market. I would indicate to you that relative to our Weichai discussions, based on the MOU that we put at the end of the year, we are continuing down that path, Eric. The way I see it is that we need the right deal. China is a very important market to us, but we need the right attributes in our agreement to protect intellectual property and other aspects of our business, and we are moving at a pace to ensure that we get the right aspects in the contract versus just quickly moving to a contract.

Eric Stine - Craig-Hallum Capital Group

Yes, that's great. I absolutely agree with that - you want the right deal there. Maybe last one from me, and this is just turning to Europe, hearing or seeing that January 1, 2019 new requirements for heavy duty trucks or OEMs to declare fuel consumption, also emissions levels. Just curious what that's doing to the conversations you're having with OEMs in that market related to HPDI or high efficiency spark, or any of your other technologies.

NANCY GOUGARTY speaking Chief Executive Officer, Westport Fuel Systems

Eric, I would tell you that Europe is an interesting market, and one of the markets that we have seen, I'll say, some radical change relative to how the—I'll say the entire environment around clean products and the activism in the countries around trying to take diesel out of the, I'll say portfolio. What I would indicate to you is that country by country, we're seeing interesting activities, even as of yesterday. We got some positive news through our launch partner that in France, our products were deemed such that they are considered clean vehicles, and we think that all these kinds of activities that are going on through each government agency will well position the HPDI product in that market. Certainly that has increased the dialogue with several folks in Europe that sell vehicles in that market, and as you know, when we get over and we get a definitive agreement, certainly we'll let you know, but we're not going to talk about it in advance.

Eric Stine - Craig-Hallum Capital Group

No, understood, understood. Okay, thanks a lot.

ASHOKA ACHUTHAN speaking Chief Financial Officer, Westport Fuel Systems

Thanks Eric.

Operator

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

NANCY GOUGARTY speaking Chief Executive Officer, Westport Fuel Systems

Morning Rob.

Rob Brown - Lake Street Capital Markets

Good morning. Thanks for taking my call. I just want to start with the core Automotive business. I know you haven't given guidance, but what's sort of generally—that business has come out of a downturn, seems to be improving nicely, you had a good growth rate this quarter. But what's your sense on the growth rate in that business over the next period, next year or two? Can that be a mid-single digits growth rate business sustainably?

NANCY GOUGARTY speaking Chief Executive Officer, Westport Fuel Systems

Well, I think that as Ashoka said earlier that some of the growth that you saw in the fourth quarter was euro-based. The good news is our businesses, we sell a lot in euros but we also buy components in euros. We do see that with the activities going on there that we would expect to see a growth rate in the, I would say, single digits, and we expect we'll be able to hold onto that. I would say that independent aftermarket can rise much quicker than OEM applications because of the dynamics and the customer, I'll say diligence around putting things through their manufacturing processes and validation cycles, so we always see the independent aftermarket being a pre-indicator of what we'll see in the OEM side.

ASHOKA ACHUTHAN speaking Chief Financial Officer, Westport Fuel Systems

Yes, what I'd add to that, Nancy, is as you mentioned, we have a fair amount of technology that we are developing in this segment as well, as evidenced by the direct injection kits that we are selling, so we expect that to continue to provide some momentum and impetus for growth.

Rob Brown - Lake Street Capital Markets

Okay, great. Thank you. On your European truck partner, you said the order book was open now. I know you can't give numbers, but can you give a sense of how the initial view is trending? Is it within your expectations, better, worse? Maybe just a sense of direction there.

NANCY GOUGARTY speaking Chief Executive Officer, Westport Fuel Systems

Rob, we don't really comment on it, but from what we have heard from, I'll say, industry experts, that it looks quite good. We're pleased. I think, that our launch partner has done a very good job positioning and marketing the product through the fall, and now with the order book open, I think that we need to make sure that we get through the typical ramp-up that one has as you introduce new products, but I think all indications are quite strong.

Rob Brown - Lake Street Capital Markets

Okay, great. Thank you, I'll turn it over.

Operator

Our next question comes from Colin Rusch of Oppenheimer.

Luis Amadeo - Oppenheimer

Hi, good morning. This is Luis Amadeo for Colin.

ASHOKA ACHUTHAN speaking
Chief Financial Officer, Westport Fuel Systems

Hi Luis.

Luis Amadeo - Oppenheimer

Hi, how are you? On the legacy Fuel Systems business, where are you seeing incremental opportunities for cost savings on the cost of goods sold line?

NANCY GOUGARTY speaking
Chief Executive Officer, Westport Fuel Systems

I'm sorry, I missed the first part of the question.

Luis Amadeo - Oppenheimer

Just on the legacy Fuel Systems.

NANCY GOUGARTY speaking Chief Executive Officer, Westport Fuel Systems

Well as I mentioned, we have done—you know, I think that we're just building on the back-to-basics activities. As you probably are aware, last year we reduced our floor space, I think about 40% by integrating factories together and being able to better utilize our floor space as well as our overhead costs. Those are all things that are continuing. We continue to look for opportunities to create synergy, and now by drawing in the—creating a full transportation business, that will continue to help because we are able now to leverage our resources, whether it's R&D, finance, IT, purchasing across the entire enterprise versus having distinct organizations supporting those. So, we continue to see all of the activities that we're using within the transportation sector that will help the legacy business as well in terms of the overhead structure that we had.

Luis Amadeo - Oppenheimer

That's very helpful. Can you give us a sense on the discussions around the HPDI? What is the potential for the number of customers and how mature the conversations are right now?

NANCY GOUGARTY speaking Chief Executive Officer, Westport Fuel Systems

Well, I would say for HPDI, there is many discussions. I would say there are a series of different types of customers, some customers that want differentiated products, other customers that are looking to take on HPDI technology as it is and doing a launch in various locations. I would say that interestingly, what we're finding is that we're getting, I'll say, a very positive response from the field, so customers are asking for it, and we think that customer pull is always a very positive way to get the OEMs most interested. The conversations are numerous and we have got to get them into definitive agreements before we're really going to talk about them in any public sense, but we're very pleased with the dialogues that are going on.

Luis Amadeo - Oppenheimer

Thank you very much.

Operator

Once again, if you'd like to ask a question, please press star, then one. Our next question comes from Jeff Osborne of Cowen & Company.

Jeff Osborne - Cowen & Company

Good morning. A couple of questions on my end. I may have missed it, Ashoka, but I was wondering if you could just share with us what the constant currency year-over-year growth was in Q4. It seems like currency impacted quite a few items. Is there a way you could report constant currency results as well?

ASHOKA ACHUTHAN speaking
Chief Financial Officer, Westport Fuel Systems

Yes, what we try and do is lay out the currency impact in our MD&A, but just to give you a sense for Q4 versus Q4, I believe there was a significant difference in the quarter, almost an 8% gain in the euro versus the U.S. dollar. For the full year, it was lower - it was almost close to 2% because it was subdued during the early part of the year. You know, happy to talk about it individually and some way it impacts.

Jeff Osborne - Cowen & Company

Got it. Then as we think about the cadence of the opex lines, in particular in Q1 and Q2, it sounded like there was a lot of one-time items in G&A. You mentioned a legal settlement as well as performance bonus accruals. One, can you aggregate those two items in Q4, what their dollar value was as we think about those disappearing in Q1; and then more importantly, can you just kind of walk us through the cadence of each of the opex lines, most importantly as we enter 2Q? Certainly R&D will go down, as you've articulated in the past but the other two items, how do we think about it as HPDI 2.0 ramps up with the G&A spend and sales and marketing spend (inaudible)?

ASHOKA ACHUTHAN speaking
Chief Financial Officer, Westport Fuel Systems

Jeff, you're coming through rather garbled, but I think I got the gist of your question. You were talking about unusual items and one-off items that are in opex. One of the reasons we go with Adjusted EBITDA as an indicator of operating performance is precisely that - we try and exclude one-off items, of course in addition to things like stock-based compensation (and unrealized foreign exchange gain. The Adjusted EBITDA is typically a reasonable reflection of what our ongoing operating business performance is, so—and we reconcile the net income or loss, as the case may be, to Adjusted EBITDA in our financials and MD&A. We provide a fair amount of detail as to what the one-off items are.

On the R&D, we have gone on record as saying that we expect the R&D, once the HPDI 2.0 program is launched, that the R&D related to that segment and business would track down to about 50% in 2018, and we are tracking to that.

Jeff Osborne - Cowen & Company

Got it. The last one, I think Nancy mentioned that CWI had a stronger quarter. Certainly the units were a little bit higher than our anticipation. In particular, I was intrigued by the trucking comment. Is that the near zero that you're seeing some upgrades or replacements in trucking towards, or any comment about the non-transit and refuse opportunity there would be helpful as we think about 2018 and some of the new products that CWI has.

ASHOKA ACHUTHAN speaking Chief Financial Officer, Westport Fuel Systems

Yes, I mean, there are a lot of interesting dynamics in CWI. As you probably know, all their products are near zero compliant now, but the 8.9 and the 12 are fully near zero and the 6.7 is what we call ultra-low emissions, quite closely near zero. That is one element of the CWI product range.

The other thing, as I mentioned, that significantly contributed to an extraordinarily strong fourth quarter was the fact that these engines are required to be OBD compliant from January 1, 2018 onwards, and we saw a significant amount of pre-buy particularly on the refuse and the transit side related to this. They would rather have engines that are non-OBD compliant, if you will, to align with the rest of the fleet, so there was a fair amount of pre-buy in Q4.

The other reason I mentioned we are expecting a weak Q1 for CWI was the fact that these OBD compliant engines need to be integrated into vehicles, and the OEMs, the trucking OEMs are not quite there in terms of being able to integrate those engines, so we are seeing weakness in Q1 but we expect that to pick up very strongly in Q2 and the outlying quarters.

Jeff Osborne - Cowen & Company

Perfect. The last one—I appreciate you allowing me so many questions, but the CapEx expectations for 2018? I know you mentioned most of the HPDI is behind you, but any sense of what's in the budget that you can share?

ASHOKA ACHUTHAN speaking Chief Financial Officer, Westport Fuel Systems

No, we don't guide specifically to CapEx, but as I mentioned, the bulk of HPDI spend is behind us with our spend in 2017. I believe it was approximately \$25 million of capital expenditures in 2017. Directionally, you can expect to see somewhere about half that range, is probably the best.

Jeff Osborne - Cowen & Company

Got it, thank you.

Operator

This concludes the question-and-answer session. I would like to turn the conference back over to Caroline Sawamoto for any closing remarks.

CAROLINE SAWAMOTO speaking
Manager, Investor Relations and Communications, Westport Fuel Systems

Thank you for joining us today. If you have follow-up questions, feel free to reach out to our Investor Relations team, and thanks again and see you next time.

Operator

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