

# ETI alphaDIRECT MANAGEMENT SERIES

SEPTEMBER 24, 2018

## IN FOCUS: WESTPORT FUEL SYSTEMS AND ITS INDEPENDENT AFTERMARKET BUSINESS AND DELAYED OEM SOLUTIONS.

This report focuses on Westport Fuel Systems, Inc. (WPRT) and its independent aftermarket business (IAM) and delayed OEM (DOEM) solutions.



Source: [www.alphadirectadvisors.com](http://www.alphadirectadvisors.com)

### THE alphaDIRECT ENERGYTECH INSIGHT

Westport Fuel Systems IAM business has a global market share of approximately 25% and the company has comprehensive industry experience with a large network of independent distributors located all over the world. The company targets the development of new technologies for direct injection engines and improved self-calibration tools to further reduce installation time and further improve performance. Its core IAM business focuses on the supply of systems and components to retrofit cars to be able to fuel with LPG or CNG. Westport Fuel Systems business model covers commercial relationships with car makers and local importers. Together with current market trends for alternative fuels and the reduction of diesel engines for light-duty vehicles, we believe that the company is well positioned to target larger quantities of petrol cars to be retrofitted and continue to expand into the

### WPRT Business Snapshot

**Founded:** 1995  
**Headquarters:** Vancouver, Canada  
**Ticker:** WPRT (TSX/NASDAQ)  
**Stock Price:** \$3.29\*  
**Market Cap:** \$430.705M\*  
**Website:** [www.wfsinc.com](http://www.wfsinc.com)  
 \*As of September 21, 2018



#### About alphaDIRECT EnergyTech Investor

alphaDIRECT Advisors (ADA), a division of EnergyTech Investor, LLC (ETI), is a Publishing and Investor Intelligence firm that creates and implements digital content and programs to help investors better understand a company's key drivers including industry dynamics, technology, strategy, outlook and risks as well as the impact they could have on the stock price. ADA's expertise encompasses a variety of sectors including Clean Transportation, Emerging EnergyTech, Energy Services, Smart Buildings, Solar, Water Value Chain and Industrial. ADA was founded by Wall Street veteran and research analyst, Shawn Severson, after seeing a significant shift in the investment industry that resulted in less fundamental research conducted on small cap companies and a significant decline in information available to all investors. ADA's mission is to bridge that information gap and engage companies and investors in a way that opens information flow and analytical insights.

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## **Participants**

**Mr. Massimiliano Fissore**  
**Senior Vice President, Independent**  
**Aftermarket & Delayed OEM**  
**Westport Fuel Systems, Inc.**

Mr. Fissore has spent most of his career in the alternative fuel industry, developing liquid petroleum gas (LPG) and compressed natural gas (CNG) products, technologies, and markets. He has spent a significant amount of time with BRC Gas Equipment and Zavoli, which are well-established brands now owned by Westport Fuel Systems. Since 2014, Mr. Fissore has served as CEO of M.T.M. Srl (a Westport Fuel Systems company), responsible for the full management of the different businesses and company divisions, including the subsidiaries located in South America and Asia. From 2010 to 2014, Mr. Fissore was General Manager of the CNG Refueling Division of M.T.M. Srl (a Westport Fuel Systems company), responsible for the development of the business of CNG compressor and refueling equipment branded Cubogas. In 2007, Mr. Fissore joined Zavoli and became CEO of Zavoli from 2007 to 2010. In 2003, Mr. Fissore joined McCormick Mexico, a subsidiary of Argo Tractors—an Italian company that produces agricultural tractors—and became CEO of McCormick Mexico from 2003 to 2007. From 1997 to 2003, Mr. Fissore was CEO of BRC Argentina and WMTM Brazil. He has a law degree from the University of Turin in Italy and serves as Chairman of M.T.M. Srl (a Westport Fuel Systems company).

**Mr. Shawn Severson**  
**Founding Partner**  
**alphaDIRECT Advisors**

Mr. Severson is the Founding Partner of *alphaDIRECT* Advisors (ADA), a division of EnergyTech Investor, LLC (ETI). He has over 20 years of experience as a senior research analyst covering the technology and cleantech industries. Prior to founding *alphaDIRECT* Advisors, he led the Energy, Environmental and Industrial Technologies practice at the Blueshirt Group. Mr. Severson was frequently ranked as a top research analyst including one of the Wall Street Journal's "Best on the Street" stock pickers and multiple awards as *Stamine's* top three stock pickers.

approximately 1 million units per year world market of LPG/CNG conversion kits.

## **ABOUT WESTPORT FUEL SYSTEMS INC.**

Westport Fuel Systems Inc. is a transportation technology company that engineers, manufactures and supplies advanced clean fuel systems and components worldwide. The company operates in three segments: Transportation, the Cummins Westport joint venture, and Corporate. From components to fully integrated systems, the company offers a wide range of products and services for alternative fuel solutions powered by natural gas, propane, renewable natural gas, and hydrogen. With a breadth of reach spanning passenger vehicles to heavy-duty trucks, locomotives, marine applications and electronics and a strong intellectual property portfolio, Westport Fuel Systems serves OEMs and aftermarket distributors in more than 70 countries, under leading transportation brands including BRC Gas Equipment, Westport, Emer, OMVL, Valtek, Prins, GFI, Zavoli, and TA Technology. Further, through its Cummins Westport joint venture, the company offers natural gas engines for transit, school, and shuttle buses; conventional trucks and tractors; refuse collection trucks; and specialty vehicles, such as short-haul port drayage trucks and street sweepers. The company was founded in 1995 as Westport Innovations Inc. and became Westport Fuel Systems Inc. in June 2016 following its merger with Fuel Systems Solutions. The company is headquartered in Vancouver, Canada with over 1300 employees and offices in 14 countries.

**Shawn Severson:** First, I would like to thank you Massimiliano for taking the time to speak with us today. This is our fourth alphaDIRECT Management Series with Westport Fuel Systems and today's focus will be on Westport Fuel Systems Transportation segment, specifically your Independent Aftermarket business (IAM) and your delayed OEM (DOEM) solutions. However, before we get started could you give us a brief introduction of yourself and what brought you to Westport Fuel Systems?

**Massimiliano Fissore:** Thank you Shawn. While I have a law degree from the University of Torino in Italy, I have worked in the alternative fuel sector since 1997 when I joined BRC Gas Equipment and have spent my entire professional career developing liquid petroleum gas (LPG) and compressed natural gas (CNG) products, technologies and markets. I joined Westport Fuel Systems when Westport and Fuel Systems Solutions merged back in 2016 and I am now Westport Fuel Systems' Senior Vice President, IAM & DOEM. I am proud to be part of Westport Fuel Systems, an industry leading company with alternative fuel systems and solutions as a core business and a clear strategy in terms of growth for future technologies and new applications.

**Shawn Severson:** Let's begin with helping us understand how Westport Fuel Systems is positioned within the global IAM business?

**Massimiliano Fissore:** Within the global IAM business, a number of active players offer solutions to retrofit cars from a pure gasoline fueled to a bi-fuel car (gasoline with LPG or with CNG). Driving on these fuels means driving more economically and more environmentally friendly. Westport Fuel Systems

is really the global leader in the IAM business. We have a long history, with over 40 years' experience in developing, manufacturing, selling and servicing LPG and CNG systems and components for the automotive market. We currently have a global market share of approximately 25% (CNG/LPG) and a consolidated network of approximately 100 independent distributors located in over 70 different countries around the world. With each distributor having a solid network of local dealers, where end customers can have their cars retrofitted and serviced. We have five manufacturing locations: two in Italy; one in the Netherlands; one in India; and one in Argentina. The involved number of employees is about 850.

**Shawn Severson:** Great, thank you. What are the core businesses and brands that make up Westport Fuel Systems IAM business? Can you tell us more about it in terms of focus, customers, products and technologies and strengths?

**Massimiliano Fissore:** Westport Fuel Systems core IAM business is focused on engineering, manufacturing and supplying technologically advanced and cost-effective products to retrofit cars to be able to fuel with LPG or CNG. This is a relatively fast and easy solution that offers significant savings for individual end customers along with important emissions benefits. The Westport Fuel Systems family of brands covers all segments in the IAM for LPG and CNG fueled cars. BRC Gas Equipment's and Prins' key focus is developing systems for the latest car models. Innovations and high-quality standards come with a top-mid price range. While Zavoli, OMVL and TA Gas Technology have a strong local presence and are positioned in the low-mid price range and well known for their high product quality and reliability. Valtek is a supplier of CNG and LPG components to kit integrators.

In terms of product portfolio, the IAM business demands competitive products to reduce the conversion cost in order to shorten the end user's payback. However, at the same time, it demands investment in research and development to follow the automotive industry's evolution in terms of engine technologies, electronics innovation and increasingly stringent emission levels. Our targets include the development of new technologies for direct injection engines and improved self-calibration tools to further reduce installation time and further improve performance. A key strength of Westport Fuel Systems' IAM business is a complete portfolio product range with the ability to attend to any market request and retrofit any model of car from low tech to modern cars.

**Shawn Severson:** Thank you, Massimiliano. Moving on, can you tell me more about "DOEM" and some of the customers you are working with?

**Massimiliano Fissore:** Delayed OEM or DOEM is a strategic business for Westport Fuel Systems, which involves a commercial relationship with car makers or local importers. First let me explain what the DOEM business is. The business covers conversions of new gasoline cars to bi-fuel cars before they are delivered to the local dealers or to the end customers. Westport Fuel Systems owns a consolidated "know how" offering 10+ years of experience and turnkey solutions to our customers. Our DOEM services include prototyping, development, testing, validation, homologation and conversion of the cars. We work with many of the major automotive OEM and dealers you have heard of including Kia, Hyundai, Nissan, Honda, Volvo Car, Ford, GM, Mitsubishi, Suzuki and Ssangyong. Our DOEM centers are located in Italy, Sweden and the USA. We also work with partners who own a local DOEM conversion center.

**Shawn Severson:** Can you help us understand a bit more about the size of the IAM market as well as your market share and growth expectations?

**Massimiliano Fissore:** The world market of LPG/CNG conversion kits can be estimated in the range of approx. 1 million units per year with an estimated double-digit growth rate depending on various market drivers. In terms of market share, we have approximately 25% of the global market.

**Shawn Severson:** How is the IAM business model different than the OEM business model and where does IAM make more sense?

**Massimiliano Fissore:** Good question, Shawn. Actually, the two business models are completely different. The concept of the product and the technology are the same, but the process of integration and approach to the market are completely different. In the OEM business, an OEM would integrate the specifically designed product while the car is being manufactured; then the car would be made available at the car dealer. In the IAM business, the product designed for a specific gasoline car model or engine platform would be integrated at a conversion center or workshop after it is sold to its first owner. The IAM solution works very well for those who have invested in their vehicle already but need to modify to reduce emissions and lower fuel costs.

**Shawn Severson:** Thank you for explaining. Now, what are some of the market drivers the IAM and DOEM businesses are experiencing and is the diesel-ban affecting your business?

**Massimiliano Fissore:** The market drivers historically have been cost savings and the desire to reduce mainly CO2 emissions. Cost savings are influenced by the fluctuation of

the oil price and the speed of emissions reductions is often influenced by (governmental) incentives and strategies to improve air quality. The infrastructure network is another main driver as the presence of a capillary LPG or CNG refueling station network is mandatory to enable market development. In many countries we are seeing this network becoming quite vast. Overall, we see positive trends for alternative fuels and the reduction of diesel engines is certainly offering us a larger quantity of petrol cars to be retrofitted.

**Shawn Severson:** Help us understand what are the most important markets today and where is expansion possible and why?

**Massimiliano Fissore:** Currently the key markets for Westport Fuel Systems are Italy, Eastern Europe, Turkey, and South America. In terms of the fastest growth markets we are looking to India, Bangladesh, Mexico, and Algeria. We believe our expansion and growth will be driven by a broad portfolio of products that gives us the ability to facilitate essentially any market request and retrofit a very broad range of cars from low tech to modern cars, as well as development of new technologies for the latest direct injection engines.

**Shawn Severson:** Thank you. How do you think CNG/LPG fits in with a broader portfolio of alternative transportation such as battery electric and fuel cell electric?

**Massimiliano Fissore:** Well Shawn, the future of the transportation industry is unpredictable, and as you noted, there is a lot of talk about electric. However, the timing is uncertain and there are several factors at play including infrastructure, battery technology, and governmental policies that can speed up or dramatically delay the development process.

If we look at the current environment we know the following key points are certain: first, LPG/CNG car technology is readily available, consolidated and economically sustainable; second, several countries have established a refueling infrastructure; third, LPG/CNG car contribution for emission reductions is significant; and last, but not least, diesel engines are on the decline. Based on these considerations, LPG/CNG should be part of a broader alternative transportation portfolio and is an excellent bridge between today's technologies and the future of "unpredictable" solutions. Furthermore, LPG/CNG aftermarket conversions remain an important alternative solution for cars on the road today and for car models that don't have a bi-fuel option from the OEMs.

**Shawn Severson:** Thanks Massimiliano. Lastly, we touched on this a bit earlier, but I would like to address the EV market a bit more and how you view that industry?

**Massimiliano Fissore:** Let me begin by saying that innovation is always on the agenda at Westport Fuel Systems. Converting hybrid cars is already possible. Recently we gained a significant experience in a Silverstream project. It is an EU Horizon 2020 project where an electric light quadricycle vehicle has been developed, with an improved turn radius and a few special mechanical and electronic instruments to help drivers with physical deficiencies. During this four-year project we gained critical experience and "know-how". We can use this experience in our future developments.

**Shawn Severson:** Thank you, Massimiliano for your time today.

**Massimiliano Fissore:** Thank you!

## SHAWN SEVERSON FOUNDING PARTNER

Mr. Severson founded *alphaDIRECT* Advisors (ADA), a division of EnergyTech Investor, LLC in 2016 after seeing a significant communication and information gap developing between small and micro-cap companies and the financial community. Mr. Severson has over 20 years of experience as a senior research analyst covering the technology and cleantech industries. Previously, he was Managing Director at the Blueshirt Group where he was the head of the Energy, Environmental and Industrial Technologies practice. Prior to the Blueshirt Group, Mr. Severson was at JMP Securities where he was a Senior Equity Research Analyst and Managing Director of the firm's Energy, Environmental & Industrial Technologies research team. Before joining JMP, he held senior positions at ThinkEquity, Robert W. Baird (London) and Raymond James. He began his career as an Equity Research Associate at Kemper Securities. He was frequently ranked as a top research analyst including one of the Wall Street Journal's "Best on the Street" stock pickers and multiple awards as Stamine's top three stock pickers.



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