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## Operator

Thank you for standing by. This is the Conference Operator. Welcome to the Westport Fuel Systems Fourth Quarter and Fiscal 2018 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 Shawn Severson with alphaDIRECT Advisors, Westport's Investor Relations representative. Please go ahead, Mr. Severson.

## SHAWN SEVERSON speaking Investor Relations, alphaDIRECT Advisors

Thank you and good afternoon, everyone. Welcome to Westport Fuel Systems Fourth Quarter and Fiscal Year 2018 Conference Call which is being held to coincide with the press release containing Westport Fuel Systems' financial results that went out this afternoon. On today's call, speaking on behalf of Westport Fuel System is Chief Executive Officer, David Johnson, and Acting Chief Financial Officer, Jim MacCallum.

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 the 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 the call over to David.

## DAVID JOHNSON speaking Chief Executive Officer, Westport Fuel Systems

Good afternoon, everyone. I'm really pleased to have joined Westport Fuel Systems. It's a pivotal time for our industry and for our Company. In addition to the main topic of today's call, I'd like to share with you a bit about my background and also my views on the significant growth prospects for our Company.

First though, I'd like to recognize the contributions of my predecessor, Nancy Gougarty, who set the table for the Company and is now enjoying her well-deserved retirement, while we continue to execute on the strategic course she defined. In addition to Nancy's leadership, I'd also like to recognize all the Company's past leaders and employees as well as the visionary entrepreneurs who created and built the Company's products, brands that have now come together to form Westport Fuel Systems. We have a rich history in alternative fuels, a comprehensive set of products, and a depth of expertise that positions us well for growth. As you know, there have been a couple of big changes at Westport Fuel Systems already this year. My appointment as CEO and the appointment of Jim MacCallum as acting CFO came at the start of a very important year for us.

Let me reinforce and reassure you that the Senior Management Team is focused and continues to execute without missing a beat on the strategy that we established in the months and years prior and which has been discussed in prior calls. During the last few years, Westport Fuel Systems underwent a series of transformational changes that have set the Company on a

path to becoming a profitable, sustainable organization. These changes prepared our Company to respond directly to global market needs for cleaner transportation solutions.

Before reviewing our 2018 results and 2019 outlook, I'd like to offer a bit on my background and my reasons for joining this Company at this time. I was basically born into the automotive business. I'm the son of a car dealer. My entire professional career has been dedicated to the development, industrialization, and commercialization of better cars, better trucks, and better engines. I've worked for large and small companies, including General Motors, Ford, Navistar, Achates Power, and I've worked in markets around the world, North and South America, Europe, and Asia. I'm passionate about clean cars, affordable cars. Clean is critical, as everybody knows, affordable though is equally, if not more critical, as our industry operates at a massive scale and therefore must be economically self-sustaining. Governments can, should, they should lead, they should support this needed transformation, but the necessary scale can only be achieved with cost effective solutions. The world needs clean, affordable transportation, and we as an industry can make significant improvements compared to the mainstream products we have today.

What I saw in Westport Fuel Systems as an outsider, I can now confirm as an insider. We are a Company with a portfolio of clean, cost effective technologies, a global market presence and significant growth potential. I spent my first two months at the Company meeting our team around the world, and I am inspired by their commitment to creating and deploying clean energy solutions, building strong partnerships, delivering high-quality products, and satisfying our customers and their customers. We have the right team, we have the right products, products that serve the full range of transportation applications and which serve markets around the world. We are well-positioned to capitalize on the opportunities in front of us. I am pleased to say Westport Fuel Systems is market ready. As I mentioned, I'm taking the helm following significant actions to transform Westport Fuel Systems into a profitable, sustainable organization. While progress has been made, there is certainly more work to do. Our team understands the focus and effort required to capitalize on the opportunities before us, and there is a sense of urgency throughout our business to continue to deliver results.

Now, let me turn to those results. With Q4 2018, we recorded our third consecutive quarter of positive Adjusted EBITDA and also our first full year of positive Adjusted EBITDA. These results align with and fulfill our commitments. In 2018, revenue was up by 18% compared with 2017. Net losses from continued operations decreased by 35%. We signed new development and supply agreements with Weichai for the production and launch of HPDI 2.0 in China. Our lead customers successfully launched Westport's HPDI 2.0 in Europe, and production sales are now accelerating.

Before Jim dives into our financials, I want to provide my views on the key drivers impacting our business.

Let's talk about the big picture, fundamental market trends that are driving our business. First, ever increasing demand for transportation—cars, trucks and buses, the curve just never seems to change course, going up and up all the way, increasingly urgent demands for clean air and action to mitigate climate change, and the increasing availability and favourable economics of cleaner fuels. Maybe some examples will help show why this is really a pivotal time for clean transportation and therefore for Westport Fuel Systems.

Let's talk about Europe for a second. Europe is on the cusp of enacting CO<sub>2</sub> regulations for heavy duty vehicles with a final vote scheduled for the week of April 15. Under this proposed legislation, heavy duty truck OEMs will be required to achieve a fleet average reduction of CO<sub>2</sub> emissions of 15% by 2025 and 30% by 2030 compared to a 2019 baseline. Now, HPDI provides a CO<sub>2</sub> emissions reduction benefit of approximately 20%. It's commercially available, cost competitive, and on the road across Europe today, and Weichai comes around the corner later this year with their launch. The phrase game changer, while often overused, is applicable here given the magnitude and the required improvement and the financial implications that are part of these new European regulations. Europe, like California, is leading, as you can see, but they are not alone. China and India have accelerated their efforts with policy and regulations to reduce greenhouse gas emissions, reduce criteria air pollutants, increase clean refueling infrastructure, and to deploy more alternative fuel vehicles.

Let's turn our head to India now. Basically, people around the world are demanding healthy breathable air. It's a public health crisis, and transportation has a critical role to play. So, in India, they are requiring now Bharat Standard VI emission. So, Bharat Standard VI is very similar to Euro 6 in terms of its requirements, and this new requirement that India has in place comes into force in April of next year. This change from Bharat Standard IV to Bharat Standard VI, skipping entirely

the step number five will be completed in just three years. So, India is going to complete in three years what took nearly a decade in other markets.

Earlier this year, Tata Motors announced certification of their natural gas fueled engine to the BS VI standard. That's a standard that's not due for another year. Westport is a proud supplier to and partner for Tata having supported this groundbreaking achievement to lead the industry to a cleaner future and a very aggressive schedule. Additionally, recent rules enacted in Delhi and the National Capital Region in India placed access limits on diesel and petrol vehicles, while mandating natural gas for commercial vehicles, including taxis and city buses. And to support that, India is aggressively adding CNG refueling infrastructure with a plan to grow from less than 1,500 stations today to 10,000 over the next decade.

Now, let's turn to climate change. The challenge of climate change demands more efficient, clean transportation solutions. Natural gas is a low-carbon fuel and natural gas vehicles are fuel flexible. This means they can operate seamlessly on any blend of natural gas and renewable natural gas, such as bio-methane or synthetic natural gas, delivering even deeper greenhouse gas emissions reductions. Sweden is targeting a fossil-free transport sector by 2030 and already have a 91% renewable natural gas share in its transportation mix. California is a mature, heavy-duty gas market and one of the first key markets for our Cummins Westport joint venture. Approximately 70% of natural gas used in the transportation mix in California is renewable natural gas. With a blend of 20% renewable natural gas and HPDI 2.0, it's possible for an OEM to reach the 30% CO2 reduction in the proposed EU regulations with technology that's cost competitive and commercially available today.

Last but critically important, clean fuels are available and cost competitive. We have a diverse customer base around the world, but they share one common characteristic. Economics and fuel availability drive their purchase decisions. The importance of cost competitive and available fuel holds true for taxi drivers in Argentina, who can install one of our aftermarket conversion kits to operate their vehicles on CNG. Also, for an urban delivery truck driver in the Netherlands, running a propane fueled vehicle using a system installed by one of our OEM partners, and also for an operator of a long-haul freight truck powered by HPDI 2.0 and fueled by LNG running and demanding duty cycles in Europe. Cost of operation is the biggest part of cost of ownership for commercial vehicles and also a key factor for customers converting their cars to CNG.

All our solutions at Westport Fuel Systems are cleaner, better for the environment, and cost effective. That is the fundamental driving factor for our growth. HPDI 2.0, for example, enables a payback that can be as quick as 15 months in duration. Europe has about 170 LNG stations in operation today with public and private investment announced to reach 500 stations by the end of 2022. And China also has 2,600 LNG stations with strong growth rates expected as more trucks enter the market.

So, as you can understand, this is a pivotal time for clean transportation industry and for Westport Fuel Systems. There has never been a more compelling and exciting time to work in this space. The strength of our OEM and aftermarket business in key markets and the growth of HPDI in Europe and China ensures that we are well-positioned to capitalize in the earlier mentioned opportunities.

Our strategic priorities as I look forward in 2019 are as follows: deliver sustained growth of our light-duty and medium-duty businesses through both the aftermarket and OEM channels; accelerating HPDI commercializations; more volume with existing customers; successful launch with Weichai in China; adding new customers, and going down the cost curve and increasing our margins; and third, the continued focus on aligning our cost structure with our revenues to improve cash flow and operating results. Twenty nineteen is already off to a great start. Looking forward to the rest of the year and beyond.

With that said, I'll turn it over to Jim to review our 2018 financials.

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## JIM MACCALLUM speaking Acting Chief Financial Officer, Westport Fuel Systems

Thank you, David. I'm pleased to be joining you today as we continue to grow the Company and improve its profitability. Having served Westport Fuel Systems for the last five years, I am confident that we are on track to becoming a profitable, sustainable organization.

Twenty eighteen was a strong year for Westport Fuel Systems. As David mentioned, our consolidated revenues increased by 18% to \$270 million. Our Adjusted EBITDA improved from negative \$19.7 million in 2017 to positive \$9.7 million in 2018. We had record profits and dividends from our Cummins Westport joint venture. Our cash position and working capital remained healthy. Environmental benefits of our market-ready products are well aligned with the European, U.S. and China environmental regulations that are either enacted or expected to be legislated this year. Our team is excited to build on our 2018 results with further improvements into 2019.

To review our Q4 and 2018 results in more detail, I'll begin on Slide 2. We closed the quarter with sales of \$60.5 million, a net loss of \$10.4 million and positive Adjusted EBITDA of \$0.2 million. Our Q4 and 2018 revenues were in line with our guidance range for the year of \$260 million to \$275 million. Q4 2018 revenue increased over Q4 2017, but declined from Q3 2018 due to decreased revenues in Argentina, Russia, and Turkey partially offset by increased HPDI revenue.

Operating expenses decreased as a result of lower R&D expenses but remain high due to elevated legal expenses related to the ongoing SEC investigation and unrealized foreign exchange losses. Our Q4 2018 Adjusted EBITDA was a significant improvement over Q4 2017. And for the full year 2018, the nearly \$30 million improvement in Adjusted EBITDA resulted from improved margin, lower operating expenses, and strong earnings from CWI.

As noted during our Q3 earnings call, the positive Adjusted EBITDA during 2018 was an important milestone for our loan with Export Development Canada, one of our senior creditors. On March 1, 2019, we triggered the release of a security position against certain of our assets, and this resulted in a reduction of the interest rate on this loan from 9% to 6%, as well as the waiving of certain fees. This will translate into meaningful annual cash savings to the Company. In addition, this loan was secured by \$5.1 million in proceeds resulting from the sale of the industrial business in 2017 and was held in a restricted account. This \$5.1 million of restricted cash was also released on March 1st.

Turning to Slide 3, we look at our transportation business segment. Revenues for the fourth quarter improved by 5% to \$60.5 million as compared to the same quarter in 2017 due to strength in the aftermarket business and HPDI sales, offset by the impact of the lower euro in Q4 2018. Gross margins decreased to \$12.3 million in the fourth quarter of 2018 from \$14 million in Q4 2017. Gross margin decreased due to product mix and a decrease in high margin engineering service revenue associated with our HPDI 2.0 launch customer. R&D expenses decreased by 40% in Q4 2018 compared to the prior year from \$11 million to \$6.6 million, and this was in line with the third quarter of 2018. We expected this decrease in R&D spend as we transition to the commercialization phase of HPDI 2.0.

As David mentioned, the development work associated with adapting our HPDI 2.0 technology to a Weichai engine platform is well underway. Weichai Westport is providing a portion of the cash required to fund this work under the development agreement we signed in August. As a result of our tightening R&D spend, Adjusted EBITDA in our transportation segment improved over Q4 2017. Sequentially, however, our Adjusted EBITDA decreased from positive \$1.8 million in Q3 2018 to negative \$3.1 million in Q4 2018. This is primarily due to lower revenue and margin.

Turning to Slide 4, we'll review the results of the CWI joint venture. CWI recorded revenue of \$94.1 million in Q4 2018, a 3% increase over Q4 2017. As anticipated, R&D expenses continued to trend lower and we expect these expenses to remain low going forward as the joint venture is not anticipating any new major R&D projects. However, during the quarter, CWI recorded a negative after-tax warranty charge of approximately \$5 million related to extended warranties, and this had a \$2.5 million negative impact on our Q4 Adjusted EBITDA. In Q4, CWI recorded net income of \$11.5 million or 12% of sales, and during the quarter, Westport Fuel Systems received cash dividends of \$8.2 million.

Turning to Slide 5, we look at our corporate segment. SG&A costs increased during the current quarter, mainly due to legal expenses related to the SEC investigation, which were \$3.1 million in the current quarter, net of expected D&O insurance recoveries and higher professional fees related to other business initiatives. As noted in our MD&A, we have not received any new subpoenas since August 2018.

Slide 6 shows our cash walk. We started the quarter with \$54.2 million and ended the year with \$61.1 million. The cash increase primarily relates to \$7.2 million in proceeds received from new debt drawn during the quarter. Dividends from CWI of \$8.2 million and \$3.4 million in hold-back proceeds. These increases were offset by principal and interest payments of \$5.5 million, capital expenditures during the quarter of \$3.1 million, cash used in operations and working capital of \$1.7 million, and net cash outlays relating to the SEC investigation of \$1.6 million.

We will continue to repay principal out of our existing cash flows and don't have any specific plans to raise capital. In terms of guidance, our Q1 2019 orders to date have been strong as has our order book for the full year, especially from our European HPDI launch customer. We expect a significant increase in our HPDI revenue as compared to 2018. However, the number of HPDI trucks our European customer ultimately produces in 2019 and the Weichai volumes resulting from the launch of HPDI product in China are difficult for us to forecast. The other parts of our business, the aftermarket business, the light-duty OEM business and our CWI joint venture are more predictable and are performing well.

Having said that, we are expecting an increase in Q1 2019 revenue sequentially over Q4 2018 and over the prior-year quarter. For the full year 2019, based on the current 1.13 euro exchange rate, which is approximately 4% lower than the 2018 average, we are forecasting 2019 revenue in the range of \$265 million to \$295 million. We are excited for the upcoming year and strongly believe that we will continue improving our financial performance. Transparency is a key goal of the Company and we will strive to make improvements in breaking out our businesses at the appropriate time as we go forward. As such, David and I will also review our guidance policy. David and I will be attending the Oppenheimer and Craig-Hallum investor conferences in May and look forward to speaking or meeting with many of you before then.

With that, I'd like to turn it over to the Operator for questions.

## Operator

Thank you, sir. 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. We will pause for a moment as callers join the queue.

Our first question is from Colin Rusch with Oppenheimer & Company. Please go ahead. Colin, your line is open.

## Colin Rusch - Oppenheimer & Company

Sorry about that, guys. One of the stories that we've been looking for is some savings on the OpEx side. As you guys move into your new roles with the organization, what opportunities are you seeing to optimize some of that spending as we go into 2019?

## DAVID JOHNSON speaking Chief Executive Officer, Westport Fuel Systems

Yes. Hi, Colin. How are you? Good to hear you today. With respect to OpEx, I think as we put our budgets together for this year, we sharpen the pencils, and we're looking at ways to cut wherever we can. But I think, fundamentally, after a long

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string of getting those things aligned, I don't see big cuts, right, that's the bottom line. We have done, I think, a good job and Nancy before me in terms of getting costs aligned. But at the same time, we know that as the business proceeds, we have to keep a close eye on it. So, I can't identify at this juncture big changes we're making on OpEx to move the needle, but it's an ongoing challenge for any Company.

## Colin Rusch - Oppenheimer & Company

All right. That's very helpful. And then just a housekeeping question. CapEx for 2019, how much are you expecting to spend throughout the year?

## JIM MACCALLUM speaking Acting Chief Financial Officer, Westport Fuel Systems

I don't have the number handy, but it will be comparable to 2018, Colin.

## Colin Rusch - Oppenheimer & Company

Okay. Thanks so much, guys.

## Operator

Our next question is from Eric Stine with Craig-Hallum. Please go ahead.

## Eric Stine - Craig-Hallum

Hi, everyone.

## DAVID JOHNSON speaking Chief Executive Officer, Westport Fuel Systems

Hi, Eric. How are you?

## Eric Stine - Craig-Hallum

I'm fine. How are you?

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**DAVID JOHNSON speaking**  
**Chief Executive Officer, Westport Fuel Systems**

Excellent, thanks. Good to hear you.

**Eric Stine - Craig-Hallum**

Good. So, David, maybe first question for you, just I would love to get your thoughts, couple months in here what you're finding in terms of importance of having two lead customers for HPDI? In key markets clearly from your prepared remarks, it sounds like you do have some expectation to add additional a partner or partners. And then, just curious, I know it's early, but have you seen any change from OEMs in Europe in response to the CO2 standards?

**DAVID JOHNSON speaking**  
**Chief Executive Officer, Westport Fuel Systems**

Yes, great question. Thank you very much. I have, I mean, as I joined Westport, a key ingredient for me and kind of a rationale for joining the firm and taking the charge to go forward was the fact that the Company had already secured two very important customers for HPDI. So, our lead customer in Europe, as you know, is in production. We see the order book from them. It looks very strong. We're excited about the curve that they're following. Anything can happen. That's one of the variability we have through the year, as we try to forecast where it will come out, but overall the atmosphere—and I've had a chance to meet with that customer during my travels, and they're very positive on what we've provided to them and what they're providing to the marketplace, and what they're seeing in terms of orders fleets going from a couple of units to handfuls to tens and 20 unit orders, that's very strong. We expect a similar kind of trajectory with Weichai in China as we launch later this year. The work we're doing with them is going very well. We know what we need to provide them, they know what they need to do, and all those activities are in place to achieve a launch later this year.

As you mentioned, these are two really important customers and two really important markets. We're just at the beginning of a very exciting time. And so, they're the leaders, right, and we do expect followers in this marketplace with this product, and when you apply the European regulations on top of that, which hopefully get confirmed in mid-April, that will really turn up the heat on the manufacturers to follow the lead of our lead European customer at Weichai.

**Eric Stine - Craig-Hallum**

Got it. Thanks for that. And then just thinking about the outlook for 2019, and I know that FX has a role in that, but it sounds like you're pretty optimistic on the light-duty business. Maybe just thinking about the puts and takes, low end of guide, high end of guide, I mean, it would seem at the low end of guide that would be assuming very little contribution from HPDI and would be—you're doing that just because you have very little visibility at this time?

**DAVID JOHNSON speaking**  
**Chief Executive Officer, Westport Fuel Systems**

I would say in general that we think—we provided the guidance for a reason based on our own study and our view of the marketplace, there's variability of things we can't predict, FX matters, all sorts of economic conditions matter, as fuel prices

change and the relative fuel price between CNG and petrol and diesel changes - all these things can have a big impact on our business. Having said that, yes, the HPDI business is very important to it. And coming back to light-duty, we see this as pretty stable, but with growth trajectory. And so, like with HPDI, we're looking forward to signing up new big customers on the light-duty side also. And we see those opportunities, and we're pursuing those opportunities and look forward to making announcements about the wins we secure not just in HPDI, but in light-duty business also.

## Eric Stine - Craig-Hallum

Got it. Okay. Maybe last one from me for Jim. Just on the CWI warranty charge. Is that something we should view as one-time in nature, or is that something you think persists for a few quarters?

## JIM MACCALLUM speaking Acting Chief Financial Officer, Westport Fuel Systems

Yes, warranty gets looked at every quarter, Eric, and we think it's pretty much a one-time thing. But as you know, there's a lot of variability in the warranty charge. It relates to some fairly low volumes of one of the older engine platforms. So, we view it as a one-time charge at this point.

## Eric Stine - Craig-Hallum

Okay. Thanks a lot.

## DAVID JOHNSON speaking Chief Executive Officer, Westport Fuel Systems

Just to make more sense on those things, you accrue for the charges on warranty what you expect it to be at the time you sell the engine, and so we make our best estimates and we've got a great partner in Cummins to do that, but when the data starts rolling in, you have to make adjustments and so these things happen. By the way, they can happen in both directions, and so we'll see what happens the next quarter and make the right accounting changes accordingly and hopefully get closer and closer to estimating what's actually going to happen in real time with the engines.

## Eric Stine - Craig-Hallum

Right. Okay, thanks.

## Operator

Our next question is from Rob Brown with Lake Street Capital Markets. Please go ahead.



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## Rob Brown - Lake Street Capital Markets

Good afternoon. Thanks for taking the call.

## DAVID JOHNSON speaking Chief Executive Officer, Westport Fuel Systems

Hi, Rob.

## Rob Brown - Lake Street Capital Markets

Just wanted to get into the 2019 guidance a little more. You said—I think you said stable to modest growth in the automotive segment, and I'm just trying to reconcile that with sort of the guidance which is sort of flat to single-digit growth overall. Kind of how much conservatism have you baked into the HPDI growth? Are you kind of taking what you have today or you—just some colour on how you look at HPDI as part of the guidance?

## DAVID JOHNSON speaking Chief Executive Officer, Westport Fuel Systems

This is a tricky business, this projecting where you're going to come out and do it with a reasonable range, but fundamentally, we looked at all the numbers, and we think we know are going pretty well. But, at the same time, launches, especially this one that we have in the third and fourth quarter with Weichai, who knows, right? We'll do everything we can to meet and exceed customer expectations, achieve the full launch curve, but we've got to provide all the components that we provide to Weichai, they've got to put it in their engines, they've got to secure all the other supply of all the other components, and they've got to build those engines, sell those engines to customers.

So, where does it actually come out? This is, I would say, the biggest variable in the forecast of the range. The other variable, of course, FX does matter, and it is a key ingredient.

## JIM MACCALLUM speaking Acting Chief Financial Officer, Westport Fuel Systems

Yes. Rob, the FX is down quite a bit from 2018 levels already, so take that into account as well when you're thinking about our guidance.

## Rob Brown - Lake Street Capital Markets

Got it. And I think you said down 4% was sort of the trend line there.

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**JIM MACCALLUM speaking**  
**Acting Chief Financial Officer, Westport Fuel Systems**

Correct.

**Rob Brown - Lake Street Capital Markets**

Okay. And then I guess on Weichai, you gave a little bit of colour there on the launch kind of timing, but Q3, Q4, you said, but how does it roll out? How many trucks does it ultimately—how many is it on kind of initially, and I guess just some sense of how it rolls out, and I get that it's hard to predict volumes, but just more structurally how does it roll out?

**DAVID JOHNSON speaking**  
**Chief Executive Officer, Westport Fuel Systems**

Yes. As you know, we don't provide the volumes of individual customers, so I can't give any more detail really at what Weichai expects to do or let alone what will actually happen. Of course, Weichai is a maker of engines, and they have to sell those engines to truck buyers. So, I'm sure there (inaudible 31:10) on their side too in terms of what the order book will look like as they supply engines to their customers. But we've got a forecast. We're planning and acting according to that forecast, and we have to let the clock tick along and find how things come out in the end.

**Rob Brown - Lake Street Capital Markets**

Okay, good. And then sort of on the EBITDA level, I know you didn't give guidance, but directionally do you expect EBITDA to get better in 2019 or just maybe directionally, how do you see EBITDA trending?

**DAVID JOHNSON speaking**  
**Chief Executive Officer, Westport Fuel Systems**

We've got a good track record that I'd like to point to based on my predecessor's work and the team's work over the last few years of year-over-year improvements. And this is our first full year of positive EBITDA, and I wouldn't hold the job very long if I wasn't projecting to get better, but I don't have a number for you.

**Rob Brown - Lake Street Capital Markets**

Got it. Thank you. I'll turn it over.

**Operator**

Our next question is from Amit Dayal with H.C. Wainwright. Please go ahead.

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## Amit Dayal - H.C. Wainwright

Thank you. Good afternoon, guys. Just digging into HPDI a little bit, is there any revenue concentration in these revenues of HPDI 2?

## DAVID JOHNSON speaking Chief Executive Officer, Westport Fuel Systems

Amit, I'm not quite sure, this is David speaking, not quite sure I understand your question. Is it revenue concentration, is that what you said?

## Amit Dayal - H.C. Wainwright

Yes, I mean, is HPDI dependent on one or two key customers? Largely is most of the revenue coming from limited customers in this front?

## DAVID JOHNSON speaking Chief Executive Officer, Westport Fuel Systems

Yes. So, as a general view of the situation, we've got our launch customer in Europe as we've announced in prior calls and discussed previously. We've got Weichai coming on later this year. Beyond that, we expect to have more customers in the future, but we don't have an announcement to make today, I look forward to making that kind of announcement. And as that customer base gets more diverse, then we'll be a little bit more comfortable that if one customer is up and another customer is down, we can be more predictable in our business, as we are with our aftermarket business and our OEM business where we have many customers for both of those segments. So, we're looking forward to that. But at this juncture, yes, pretty early in the game with the launch of that product in the marketplace both in Europe and then China is still to come.

## Amit Dayal - H.C. Wainwright

Can we expect any new announcements on the customer side for HPDI 2 in that context this year?

## DAVID JOHNSON speaking Chief Executive Officer, Westport Fuel Systems

Yes, I do expect them. I don't know about this year. The timing is always difficult to predict. And as you know, in our business of being a Tier 1 supplier, we don't control the timing of those announcements. The timing of those announcements is controlled by our customers. So, there's two things; one is having the news, the other one is being able to talk about it. So, I can't wait to do so, but don't have anything to talk about today on that fact.

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## Amit Dayal - H.C. Wainwright

And in your 2019 guidance, I don't know if you can disclose this, but how much is HPDI 2 of that guidance, or maybe if you could share how much growth you're expecting in HPDI 2 relative to 2018?

## DAVID JOHNSON speaking Chief Executive Officer, Westport Fuel Systems

Yes. I can't share specific numbers, but let me talk about the business, because I think it's a very interesting thing, and one of the things that drew me to Westport in the first place.

The Company has a number of different business units, as you know. Our aftermarket business is 70 different... plays in 70 different countries with 100 different distributors serving vehicles of all varieties, both LPG and CNG. It's a very diverse business. And I would say, fairly mature still with significant growth potential, but it's a mature well-developed, well-run business.

Our OEM business is different there again. We're actually working directly with OEMs supplying the components for CNG and LNG—LPG systems. And so, again a mature business, a growing business, tremendous amount of potential to grow in that business. But then within that, that third piece comes along with our HPDI business, which is really a startup embedded in a mature company, right? And so, the long history of Westport, Westport Innovations before the merger with Fuel Systems has this startup portion of our DNA. And I think that's really important and exciting for us, and it's a—we're expecting growth curves that are very, very exciting that investors should be very interested in. And so, we're just at the beginning of that and hence exciting time, pivotal time for the Company.

## Amit Dayal - H.C. Wainwright

Understood. Just one last one from me on Weichai. Are you expecting to receive some development-related payments, has that come through already, and are you sort of in the next steps of moving forward with shipments etc.?

## JIM MACCALLUM speaking Acting Chief Financial Officer, Westport Fuel Systems

Yes, and we've received some of those payments already. They're funding as we continue on the development of the program.

## Amit Dayal - H.C. Wainwright

All right. Thank you.

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**DAVID JOHNSON speaking**  
**Chief Executive Officer, Westport Fuel Systems**

So, I think this is a typical thing that basically before you get to production, we being the leader in HPDI in the world, a partner with our customers before they go to production to support them in prototype validation, development, calibration, integration, all the things you have to do to go from wanting it to having it in production. And increasingly, as is the case with Weichai, our customers pay us for that kind of support, and so that's really an exciting also portion for us of our business model that we have these paying development partners.

**Amit Dayal - H.C. Wainwright**

Thank you. I'll get back in queue.

**JIM MACCALLUM speaking**  
**Acting Chief Financial Officer, Westport Fuel Systems**

Thanks, Amit.

**Operator**

Once again, any analyst who wishes to ask a question, may press star then one.

Our next question is from Jeff Osborne with Cowen and Company. Please go ahead.

**Jeff Osborne - Cowen and Company**

Hey. Good afternoon, guys. I had a couple on my end. A lot of people have asked about the guidance and certainly it's a bit lower than I think many of the analysts including myself were expecting. Can you just go through which of your end-markets are in structural decline or declining? This year you talked about weakness for example in (inaudible 37:10) in Argentina, Russia, and Turkey on a year-over-year basis for '18 and for '17. But how should we think about—we certainly are focused on the growing markets, but just trying to get a sense of as you look at your broad exposure in transportation more broadly, which markets are declining?

**DAVID JOHNSON speaking**  
**Chief Executive Officer, Westport Fuel Systems**

Yes. It's a good question. Good to talk to you, Jeff. Thanks for joining. When we look at our aftermarket business with 70 markets around the world and 100 distributors in CNG and LPG products, frankly, I think we can always see a few markets that have gone up and a few markets that are going down, but these aren't massive movements in most cases, unless it's like a big problem in a local country like Venezuela goes to zero or something like that. So, I don't have a list for you today that says, gosh, these markets are in trouble. We don't have any markers on the rise that we see in that way. What we see are modifications where it's not as strong as we thought it would be or it's a little bit weaker than we—so it's a little bit off our

forecast, and in some cases markets like Argentina can be important to us, and so if they—because they are a big part of our mix, and so if they fall apart in some way that we need to note—we note it for you.

But as of today, we don't have any such notes to bring you in terms of the material weakness in any of our markets with respect to our aftermarket business. The OEM business, as you can imagine, is quite different, because we sell to an OEM who then sells to markets around the world, so we get—they deal with the mix of the different regions that matter. And so maybe that's responsive to your question, I hope.

## Jeff Osborne - Cowen and Company

Got it. No, that's helpful. And then how should we think about CWI in 2019? I know it's not part of the revenue guidance, but just you had a big year I would assume for some legacy replacements for bus fleets, LA, San Diego, etc. with the near-zero product cycle. Is there still a reasonable backlog for '19 for near-zero vintage 2013, 2014 replacements, or is CWI most likely flat to down in '19?

## DAVID JOHNSON speaking Chief Executive Officer, Westport Fuel Systems

I think we have a fairly good view of that, and I've got Jim Arthurs here, my Executive Vice President, who can comment more in detail. He sits on the Board of CWI. Jim, do you want to give some colour on what we expect in 2019?

## JIM ARTHURS speaking Executive Vice President, Electronics Group, Westport Fuel Systems

Yes, thanks, David. Hi, Jeff. Yes, CWI is looking to grow this year. The near-zero product has been well-received, and we are seeing both new buses as well as re-powers. To direct you to one thing, there's the California HVIP program, the Voucher program, has got \$79 million this year sort of earmarked for near-zero engine replacement. So, we are seeing a tick-up in California, and it's broadening as well to other markets that look at near-zero as a very favourable thing. So, definitely growth for CWI this year.

## Jeff Osborne - Cowen and Company

Perfect. And then I know you can't give details about your launch partner and what—around quantities, but is there any discussion you could provide investors around regionally within Europe where you are seeing the demand strength without quantifying the units? Is there any particular—like what are the top three countries? Any additional detail you could provide would certainly be helpful.

## DAVID JOHNSON speaking Chief Executive Officer, Westport Fuel Systems

Yes. Just off the top of my head, we have seen a couple of public reports of fleets buying 20 units or 50 units or maybe I should say placing orders for 20 units or 50 units at a time. And so, this is really material, and I think one of those fleets was

in Belgium, and another one was somewhere in Scandinavia, and maybe there is a fleet in Germany we saw. I'm trying to remember the key countries there, but basically we do see this activity, and it is very encouraging, and like you said, we can't report on what our customers' orders look like to us and those volumes and so forth, but I did sit with them this year in my travels already and they are very upbeat about the program and the prospects. And so, I'm encouraged, and that's in our forecast. It's in our plans, and we are looking forward to the year as a result.

## Jeff Osborne - Cowen and Company

Got it. I just have two more, if I could, because I think I'm the last one. Can you just talk about what the cadence of revenue is through the year, I assume a back-end loaded year? You highlighted Weichai in the third and the fourth quarter. Obviously, Volvo, I assume, or your European partner will ramp through the year. But is there any rule of thumb that two-thirds of revenue at the midpoint would be in the back half versus the first half or any seasonality that we should think about?

## DAVID JOHNSON speaking Chief Executive Officer, Westport Fuel Systems

I do think we've seen a little bit of seasonality where second quarter tends to be higher, but I don't know if it's—I haven't had enough time here to tell you that it's definitely going to repeat. So, I wouldn't be in the park of saying that. Certainly, you get summer vacations, you get good holiday shutdowns, you get things that actually affect it and do imply seasonality. Jim, any further...

## JIM MACCALLUM speaking Acting Chief Financial Officer, Westport Fuel Systems

Yes, I would agree. Q2 is seasonally strong for us with some of the European shutdowns that they have in August. So, Q2 is seasonally strong. And India, as you say, the back half or Q4 should be strong if Weichai launches on time as we are predicting.

## Jeff Osborne - Cowen and Company

Got it. And then the last one I had is, and I think you've gone through this before, I just forget. But can you remind us of the accounting treatment of those Weichai payments? Does that show up as pure profit revenue? Is it an offset to OpEx? I forget the details on that.

## JIM MACCALLUM speaking Acting Chief Financial Officer, Westport Fuel Systems

Yes, it's actually—we're just taking the cash, and we're not recording any revenue or offset to R&D for those payments.

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## Jeff Osborne - Cowen and Company

Got it. Thank you. Appreciate it.

## DAVID JOHNSON speaking Chief Executive Officer, Westport Fuel Systems

Thank you.

## Operator

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

## SHAWN SEVERSON speaking Investor Relations, alphaDIRECT Advisors

Great. Thank you everyone for joining us today, and thanks again for your interest in Westport Fuel Systems. We look forward to talking to you next quarter.

## Operator

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