Operator

Welcome to the Westport Fuel Systems Second Quarter 2019 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, one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star, 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, Investor Relations Representative, alphaDIRECT Advisors

Thank you, and good afternoon, everyone. Welcome to Westport Fuel Systems Second Quarter Conference Call, which is being held to coincide with the press release containing Westport Fuel Systems financial results that was distributed this afternoon. On today's call,, on behalf of Westport Fuel Systems, 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 laws, and such forward-looking statements are made based on our current expectations and involve certain risks and uncertainties. Actual results may differ materially from these predicted in the forward-looking statements, so you are cautioned not to place any 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?

DAVID M. JOHNSON, CEO, Westport Fuel Systems

Good afternoon. Thanks for joining the Westport Fuel Systems Q2 2019 Conference Call. I'm pleased to share our latest financial results, highlight market drivers that are advancing our clean transportation industry globally, and showcase trends and data points specific to our markets and our customers. Our excellent results validate our strategy. They are further proof that our cost-effective market-ready products combined with stringent emissions standards are driving our Company's growth.

Let me turn straight to the financial results. With strength in OEM sales and our independent aftermarket channel, transportation revenue was $82.4 million, up 12.6% over Q1 of 2019. Adjusted EBITDA of $8.1 million is our fifth consecutive quarter of positive Adjusted EBITDA, and also the second quarter of positive EBITDA. We generated $2.5 million of positive cash flow from operations this quarter compared to consuming $2 million during Q2 a year ago. Our Cummins Westport JV contributed $5.9 million to our bottom line in Q2 and $14.5 million in the first half of this year. Overall, another strong quarter with contributions from across the business.

Our financial results aligned well, with market trends that we expect will not only process, but will accelerate. We're witnessing a real-time market response to new regulations. Europe's new heavy-duty CO_2 regulations require truck OEMs to achieve a fleet average CO_2 reduction of 15% by 2025 and 30% by 2030, compared to a 12-month baseline that's being created right now. That is from the beginning of last month through the end of June 2020. This regulation is driving OEM decision making.

In May, along with Delphi Technologies we presented joint technical paper at the 2019 Vienna Motor Symposium. There were 3 important takeaways for OEMs, customers, and regulators. First, using natural gas and a diesel cycle delivers equivalent performance to that of conventional diesel engines. Second, HPDI enables a 20% reduction in CO2 versus diesel engines. And third, HPDI will help OEMs respond to increasingly demanding regulations. In my view, that this is really just the starting place, as HPDI offers further CO2 reductions when renewable natural gas is blended with or replaces fossil natural gas. That means that HPDI 2.0 allows OEMs to respond to the new regulations, while preserving their considerable investments in existing engines and existing trucks. Combining HPDI with RNG offers a compliance pathway to and beyond the 2030 target of a 30% CO2 reduction.

Westport's HPDI 2.0 is the only technology that is developed, validated, certified in production and for sale today that fully and affordably responds to the new European CO2 regulations for trucks. These regulations are driving 2 important trends; increase customer demand for HPDI and the expansion of the LNG refueling network. First, fleet customers are buying HPDI-equipped trucks from our lead OEM customer in Europe. For example, in Q2 food distributor Ledo deployed 20 HPDI trucks supported by the first LNG stations in Switzerland. Their project titled “Goodbye Diesel – Hello LNG" earned a 2019 Hanse Globe Award for demonstrating sustainable logistics and profitability. United Kingdom is another important launch market. Gasrec operates UK's large network of natural gas refueling stations for commercial vehicles, and they've recorded a 369% rise in demand for natural gas versus the prior six months. They note that heavy-duty vehicle launches have begun to have a real impact as customer deliveries are now replacing pilots and demonstrations. The second trend is the growth in the number of natural gas refueling stations across Europe. NGV Europe announced a significant milestone in May as the 200th LNG refuelling station was opened.

The growth in LNG stations is happening in parallel with the dramatic increase in the number of CNG stations to more than 3,600 across Europe. And Finnish company Gasum have announced its goal to build a 50-station network of LNG refueling stations across the Nordic countries. Gasum opened its first LNG and biogas refueling station in Sweden in Q2. While Sweden has been an important first market, the expansion of the refueling network across the Nordic countries is really exciting news. Finally, with the increase in large orders and the build out of the refueling network, we see increasing demand for development activities to support customers who will add HPDI to their product portfolio in the years to come.

Heavy commercial vehicles are a critical lever in global transportation because of their duty cycle; heavy loads going long distances. Light vehicles are another key lever because of the quantity sold and in use each year. Calls for cleaner passenger and light commercial vehicles have resulted in an increased number of registrations for alternative fuel vehicles in key markets.

Today in Italy, almost 10% of a new light duty vehicle registrations are for CNG and LPG vehicles. Gaseous fueled vehicle sales are more than 50% higher than the combined sale of battery electric and hybrid electric vehicles. The reasons are quite clear: low incremental purchase price and fast payback of that incremental cost, fast refueling and good driving range and greater availability of fuel. Recognizing these customer demands, OEMs are responding quickly by leveraging our delayed OEM services that convert 0 kilometer vehicles to run on LPG or CNG. We've seen a significant increase in demand in 2019 and anticipate this trend will continue. Our DOEM business continues to perform well, with 2 additional OEMs with planned starts of production date yet this year. The story is not limited to Italy or Europe. In January of 2018, we announced the development and supplier agreement with Tata Motors in India to upgrade their 3.8 -litre and 5.7-litre four and six-cylinder natural gas spark ignited engines and to supply fuel injection engine control systems based on our WP582 engine management system. I'm pleased to report that the development and certification of these engines has been completed. Integration and validation of the engines on Tata trucks and buses is underway, and the new BS-VI compliant vehicles should be launched in early 2020 in advance of BS-VI standard taking effect in April of 2020.

The Indian government has made a major step towards cleaner air by moving directly from Bharat Standard V to Bharat Standard VI, which is roughly equivalent to the Euro 6 standard. Implementing BS-VI resulted in an 87% reduction in NOx emissions compared to BS-IV, and includes onboard diagnostics to ensure that the emissions are continuously monitored for compliance.

Perhaps one more data point to share. Westport fuel systems has produced and sold 29% more CNG tanks valves in the first half of 2019 and in the first half of 2018. You can consider that a leading indicator for CNG vehicle sales and registrations in Europe later this year and into 2020. Tanks and tank valves are one end of our product line with the injector being at the other. We offer complete systems and a full range of components, including EMS hardware. Westport Fuel Systems products offer both criteria air pollutant and greenhouse gas emissions reduction benefits. Now, we have a new customer that we're supporting who will enable emission reductions to improve operational efficiencies. In Q2, our BRC electronics division signed a strategic supply contract with Nexxiot AG, a Swiss company and a global leader in the development and delivery of digital supply chain management solutions. Our electronics division will manufacture and supply Nexxiot with the GlobeHopper smart sensor module, which is developed and built to track logistics assets like railcars, tank, and standard dry containers. A design for ultra-low power consumption and equipped with the solar panel. We're excited about this new contract and that our innovative technology will enable a more efficient and secure movement of freight.

And finally, our story is also a renewable gas story. The significant increase in the use of renewable natural gas shows that there's a pathway for deep decarbonization for transportation by using gaseous fuels. In May 2019, UPS announced a seven-year agreement to purchase $130 million-gallon equivalents of RNG for the medium and heavy-duty natural gas fleet. It was the largest purchase of RNG in U.S. history, and it will result in a reduction of as much as 1 million metric tonnes of greenhouse gas emissions over the lifetime of agreement. The renewable natural gas coalition recently announced that the RNG industry in North America has now surpassed the 100 facility benchmark. There has been 150% growth in the number of operational RNG production sites in the past five years. More evidence that RNG is the “Ready Now” alternative fuel. This real-time market intelligence validates what we hear from our customers around the world. Trends that we also see in our financial results, our order book, and in our development activities for our future customers. The strength of our OEM and aftermarket business in key markets and the growth of HPDI in Europe, and the upcoming launch in China ensures that we are well-positioned to capitalize the opportunity.

Before I wrap up, and hand over to Jim, let me remind you of our strategic priorities for 2019. First, deliver sustained growth of our light-duty and medium-duty business through both aftermarket and OEM channels. Second, acceleration of HPDI commercialization, including more volume with existing customers, successful launch in China, adding new customers, and lowering our cost and increasing margin. And third, continuous focus on aligning our cost structure and our revenues to improve cash flow and operating results. We're pleased with the first half of 2019, and we're looking forward to the rest of the year and beyond.

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

JIM MACCALLUM, Acting CFO, Westport Fuel Systems

Thank you, David. Q2 is a strong quarter on many fronts, and I'm pleased to see the continued strengthening of our balance sheet and improvement in operating results. Our businesses performed well, which led to strong revenues, strong earnings, and positive cash flow from operations. To review our Q2 results in more detail, I'll begin on Slide 2. We closed the quarter with sales of $82.4 million, a net loss of $2.3 million, and positive Adjusted EBITDA of $8.1 million, our fifth consecutive quarter of positive Adjusted EBITDA. Our Q2 2019 Adjusted EBITDA was an improvement over Q1 2019 and almost matched our strong year-ago performance. Improvement over Q1 is a result of strong sales during the quarter. A decrease over Q2 2018 stems primarily from lower margins and lower CWI earnings.

Turning to Slide 3 we look at our transportation business segment. Transportation revenue was up 6%, absent the effect of foreign exchange, but due to the devaluation of Euro versus the U.S. dollar, we are reporting an increase of 2% as compared to the same quarter in 2018, primarily due to strength in our HPDI and delayed OEM sales. Similarly, the aftermarket business would have been 2% higher, absent the effect of foreign exchange, but due to the weaker euro, we are reporting a decline of 2%. Q2 2019 OEM revenues increased by $3.1 million, or 13%, over the prior-year quarter. HPDI product sales were the primary driver for the OEM increase. Gross margins were in line with expectations in prior quarters, but were lower than the extraordinary results of Q2 2018, partially due to a favourable warranty adjustment in Q2 2018 and partially due to a change in product mix. As mentioned on our last quarterly update, we continue to experience strong demand for our market-ready technologies and have a number of development programs underway for both light-duty and heavy-duty vehicle applications of our clean, affordable technologies including HPDI 2.0. As a result of the increased sales, Adjusted EBITDA in our transportation segment improved over Q1 2019, but due to lower margins was lower than the prior-year quarter.

Turning to Slide 4. We'll review the results of the CWI joint venture. CWI recorded revenue of $84 million in Q2 2019, a 3% decrease over Q2 2018, and a 9% decrease from Q1 2019. The prior-year quarter benefited from $3.7 million in favorable warranty adjustments as compared to $0.6 million in the current quarter. Lower sales and warranty adjustments led to lower net income for CWI as compared to the prior-year quarter. In Q2 2019, CWI recorded net income of $11.7 million or 14% of sales. During the quarter, Westport Fuel Systems received cash dividends of $7.4 million.

Turning to Slide 5, we look at our corporate segment. SG&A cost decreased over the prior year, mainly due to lower stock-based compensation expense, lower salary expense, and lower discretionary cost, which were partially offset by higher expenses related to the SEC investigation. During the quarter, we recorded a $4.5 million expense to reflect the Company's estimate of cost to complete the SEC proceedings. Notwithstanding the SEC charge, operating expenses are trending lower, which is an important contributor in reaching our goal of becoming a profitable, sustainable company, and excluding this charge, the Company would have achieved positive net income.

Turning to Slide 6, this shows our cash walk. We started the quarter with $46 million and ended with $45.4 million. We were pleased with our cash management with the key movements in the cash balance as follows: principal and interest payments for debt and royalties of $7.8 million, capital expenditures of $1.6 million, CWI dividends received of $7.4 million in the quarter, and cash flow from operations net of $1.4 million. We continue to service and pay down our debts on schedule. Not reflected in our June 30 balance sheet is a $4.5 million prepayment on our European loan we made during July. We will continue to repay principal out of our existing cash flows and financing facilities. Based on our strong first half results, and considering the seasonality of our business and the weak euro, we are revising our annual revenue guidance to $285 million to $305 million for 2019, up from $265 million to $295 million. We look forward to meeting with investors during September.

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

Operator

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

Our first question comes from Rob Brown with Lake Street Capital Markets.

Robert Brown, Analyst, Lake Street Capital Markets

Good afternoon. I think you mentioned on your DOEM business you had a couple of new OEMs. Are these new OEMs to the program, or are these new model lines and product lines with prior OEMs?

DAVID M. JOHNSON, CEO, Westport Fuel Systems

Yes, so do we see an expanding interest in our DOEM business is going quite well, and what we're finding and seeing in the marketplace, Rob, is that people—OEMs are recognizing the need to respond to their customers, and the DOEM facility allows them to do that in a very quick way as opposed to a full-on development program they have to execute themselves. What we're seeing in the new OEMs are I think one of the new model from an existing OEM and another one is a new OEM, but I'd have to follow up with you specifically on that to be 100% certain.

Robert Brown, Analyst, Lake Street Capital Markets

Okay. Great. And then on the Weichai HPDI program, you said it was kind of coming this year, but can you give us a sense of how that roll out might progress just in terms of timing? Is it initial shipments this year, and then more of a ramp next year, or just, sort of, directionally how do you see that rolling out?

DAVID M. JOHNSON, CEO, Westport Fuel Systems

I think you said it well, initial shipments this year to kind of the prime the pump and get the system working through the manufacturing system at Weichai Westport and then out to their customers, the truck OEMs. I think you probably are well aware that the market in China has been extremely robust with respect to natural gas vehicles there, and our customer, our partner Weichai is very excited to climb the ramp, and get the product to the customers. So, we're really excited about that. The launch is in process, so not done yet, but the outlook is very strong.

Robert Brown, Analyst, Lake Street Capital Markets

Okay, great. Thank you. Congratulations on the good quarter.

DAVID M. JOHNSON, CEO, Westport Fuel Systems

Thank you very much.

Operator

Our next question is from Colin Rusch with Oppenheimer. Please go ahead.

Colin Rusch, Analyst, Oppenheimer & Company

Thanks so much, guys. Just looking at the balance sheet, there's been a pretty significantly increase in working capital, even though the cash is balancing out pretty well. Can you just talk a little bit about what's going on there, and how that might unwind as you go forward?

JIM MACCALLUM, Acting CFO, Westport Fuel Systems

Yes. Thanks Colin, for the question. Yes, we certainly had strong sales in Q2, which is driving our receivables balance primarily, and we had some accruals that we spoke about. So, that's increasing our working capital. Yes, as we play out seasonality will come into effect a little bit. Our Q3 is generally a little bit slower than our Q2 results, so we will see some reduction in working capital and hopefully an improvement in cash, as we see the pay down in receivables.

Colin Rusch, Analyst, Oppenheimer & Company

Okay. Great. Then just on the DOEM business. Can you talk a little bit about any potential pricing power, margins trajectory, particularly as you start ramping with Weichai, which we understand maybe a little bit of a drag initially on the gross margin line?

DAVID M. JOHNSON, CEO, Westport Fuel Systems

Yes, I think it's a good point, Colin, that you raised. Basically, launch phases of any product, whether it's a vehicle or HPDI technology for us, tend to be an expensive period of time and not the super profitable time. We will see some pressure on margins from the launches, and frankly, we're still in the low volume regime with our European launch of HPDI 2. So, that's just the facts. Our DOEM business for us is a good business, we don't break out the margins there, but I can tell you that it helps move the margin in the other direction, let's say, for the Company.

Colin Rusch, Analyst, Oppenheimer & Company

Okay. And then can you talk about how robust the conversations are with any potential new partners? Obviously, you're not going to give us too many details, but it seemed to me that you are building some momentum with some of those folks and getting closer to potential additional licensees, so could you give a sense of how that's progressing?

DAVID M. JOHNSON, CEO, Westport Fuel Systems

Absolutely, glad to do so. But you're right, I can't have too much, but I'll tell you what I can tell you. Bottom line is that the regulation in the marketplace and what's happening with the build out of infrastructure, the leadership of our lead customer in Europe, the coming products in China with a very, very strong and capable partner Weichai with what they're doing, all of these things are coming together to really accelerate and deepen the conversations and even the work that we're doing with customers to accelerate them for its production. So, for us is a very busy time. As you know, in our business of being a Tier 1 supplier, we don't get to make the announcements of when SOPs will be. That's something for our customers to do, but we're looking forward to that, and we can see it coming, and unfortunately, can't give much more detail than that.

DAVID M. JOHNSON, CEO, Westport Fuel Systems

Thank you.

Operator

Our next question is from Sameer Joshi with H.C. Wainwright. Please go ahead.

Sameer Joshi, Analyst, H.C. Wainwright

Thanks, David, thanks, Jim, for taking my questions. Just a clarification, in Europe or other for this year most of your HPDI sale will come from Europe, right? China is not going to be a big part of this at all?

JIM MACCALLUM, Acting CFO, Westport Fuel Systems

That's correct. Most of our sales for 2019 will be European-based.

Sameer Joshi, Analyst, H.C. Wainwright

And what is the cadence, and how are you seeing the ramp up from each partner that you sign up? Do you have any—is it similar to the first partner you had or are you seeing any differences there and will?

DAVID M. JOHNSON, CEO, Westport Fuel Systems

Yes, one thing to comment on that, Sameer, is that in the development phases, we can do the development phase more quickly with our second, third and fourth customers than we did with our first one. I think that's something that our follow-on customers are really appreciating is that it's—off the shelf would be too easy, but basically, it's a developed technology that we can apply to an engine and get to production, and it's not research project. So, I think that's material in the rollout of the development phases. In the actual production, let's say, industrialization and commercialization phase, that's more dependent on our customer, and how they do those processes. And everybody is a little different, but I would say are generically they are more same than they are different in terms of the cadence, and then it's really driven by the market. So, we could imagine, for example, and the signals from China are that we will see a different ramp in China that we've seen in Europe. But it –is all a guessing game for every industry, even the experts, so we'll see.

Sameer Joshi, Analyst, H.C. Wainwright

Right. That's a good segue and my next question, actually, which is about the fleet markets. Do you have any visibility on how the fleet markets are approaching the OEMs? Are OEMs sending you with this, and giving you this information? Or you have other sources?

DAVID M. JOHNSON, CEO, Westport Fuel Systems

We have some tidbits and some insights from our various different connections with the industry at the OEM level, both existing and developing customers. But it ends up being a tapestry of tidbits as opposed to a comprehensive view. So, from that perspective we follow the market in the same way you do. And we do hear this LNG infrastructure build out fleets like the ones I referenced that have bought 20 vehicles in Switzerland and (inaudible 25:10) Ledo. These kinds of things, this anecdotal stories of fleets going from, I had one it ran up to six months, love it, now I'm going to buy 10 or 20 or 30. We've seen quite a few stories, and they may come from time to time, and we expect those to continue to increase in terms of the quantity and the frequency and that's already been the track record.

Sameer Joshi, Analyst, H.C. Wainwright

Understood. One last one from me. Given the Cummins acquisition of Hydrogenics, or pending acquisition, I should say, do you see any synergies between CWI and that relationship there?

JIM MACCALLUM, Acting CFO, Westport Fuel Systems

I'm missing your question. Synergies between—I'm sorry, maybe you could state it again.

Sameer Joshi, Analyst, H.C. Wainwright

Synergies between the Cummins Westport joint venture and the Hydrogenics business.

DAVID M. JOHNSON, CEO, Westport Fuel Systems

No. I wouldn't say so. I think these are essentially competing technologies in some way, in terms of how to decarbonize, and how to get next generation transportation that's cleaner. But what we do see an opportunity is that, basically, in all those companies like Hydrogenics and others that are in the fuel-cell business, they need to store and regulate and deliver hydrogen to the fuel-cell stack and so this is a business that we are -- consider ourselves a leading provider of those kinds of equipment to those kinds of customers. So, we would see the new entity within Cummins to be a customer of ours with respect to our hydrogen capable regulators, valves, and so forth.

Sameer Joshi, Analyst, H.C. Wainwright

Understood. Thanks for taking my questions.

DAVID M. JOHNSON, CEO, Westport Fuel Systems

Thank you, Sameer.

Operator

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

Our next question comes from Chris Souther with Cowen and Company. Please go ahead.

Christopher Souther, Analyst, Cowan & Company

Hey, thanks for taking my question. I was wondering if you could just walk through kind of the guidance raise, the puts and takes there as far as is this increased activity with HPDI in Europe? Is this kind of better visibility into the ramp with Weichai, or is there some of the legacy businesses that are just looking stronger at this point?

JIM MACCALLUM, Acting CFO, Westport Fuel Systems

Yes. Thanks for the question, Chris. Yes, so we've raised our guidance and also narrowed the range as you've seen and yes, there's a number of things. It's really the result of our strong first half. We've had two really excellent quarters in Q1 and Q2, our existing businesses have been performing well, and independent aftermarket, the light-duty space, and in the HPDI ramp. So, we're pleased with how all of our businesses have performed, and we're reasonably comfortable with the guidance range that we've given. David spoke to the Weichai launch. We don't know exactly when that timing will be later this year. So, it probably won't have a huge impact for 2019, but the rest of the business is performing well, and that's why we've raised the guidance as we have.

Christopher Souther, Analyst, Cowan & Company

Understood. And then you talked about kind of the HPDI not yet profitable. Do you have kind of a breakeven target range, either sales in dollar amount or percent of sales or number of customers that you're kind of thinking around this point, or is it still kind of developing?

JIM MACCALLUM, Acting CFO, Westport Fuel Systems

You can be sure we have targets, and we come to work every day to make sure we meet and beat those targets, but to kind of come back to the fundamentals of your question, from our perspective, we need more than one customer and more than one market, and we need the market adoption, and we need to some more volume. Frankly, the volumes outlook we see in both Europe and China are material to us. But perhaps, the outlook is that China could be the real driver for the volume increase that allows us to get their economies of scale that allow us to get the profitability we need on the product. The other thing that is happening is the development programs tend to be paid for by our customers, and so that's also good for the business, and that will show up as, I think, as we unroll the business in the months and quarters ahead.

Christopher Souther, Analyst, Cowan & Company

So, do those developments come in as revenue to you guys, or just they are paying the bills, so to speak?

JIM MACCALLUM, Acting CFO, Westport Fuel Systems

Yes. Typically, it's revenue coming into us.

Christopher Souther, Analyst, Cowan & Company

Got it and then just...

DAVID M. JOHNSON, CEO, Westport Fuel Systems

They're not all the same. So, there isn't just one answer, but yes, there is revenue in those contracts for us typically.

Christopher Souther, Analyst, Cowan & Company

Okay. And then just the last one. The infrastructure activity really seems to be accelerating especially in Europe, and you talked about a couple of the key markets where it is expanding. I just wanted to get an idea of in what you're seeing from kind of the OEM in those conversations, is it your product that's driving some of the infrastructure? Or the infrastructure build out that's driving people to come to you, just understanding kind of the chicken and eggs it seems to be getting solved here. Do you have any idea on that?

DAVID M. JOHNSON, CEO, Westport Fuel Systems

The good news, yes, I have—I can give you a little commentary. The good news that I see is it actually—we talk about it being chicken or egg, but it actually doesn't turn out to be chicken and egg, it's more like hand in glove, right? They're together. So, the signals from the market place from the OEMs and from the fleets are I'm going to need fuel in this location in order to use this vehicle and the infrastructure is being built. Meanwhile, the infrastructure being built is enabling the fleets to tell other OEMs I want these products. Certainly, the advent of more products, like our lead OEM customers brought to the market place in Europe, that also drives the cycle. So, all of these ingredients are coming together and really supporting one another. What I would tell you right now is I haven't heard a single story from any fleet or OEM that says sales are being constrained by lack of infrastructure. In fact, I was checking the NGVA website or European website today, and now it's 212 refueling stations as of August to this date. So, it's really expanding quite strongly, they are doing that because they see the signals of more products, more products being sold, more fleet saying I plan to do this, more trucks lining up to get the fuel, so all these things go, like I say, hand in glove to build the marketplace and really achieve our goals.

Christopher Souther, Analyst, Cowan & Company

I appreciate the colour there. I'll hop in the queue. Thanks.

Operator

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

Eric Stine, Analyst, Craig-Hallum

Hi, David, Hi, Jim. So, jumped on a little late, I apologize if this has been asked, and I to appreciate that you're somewhat limited as to what you can say with your launch partner in Europe, but is this something that we should think about sequential improvement versus the first quarter? And is that something that, I guess, do you expect seasonality in that business? Is that something you expect as you head into 2020?

DAVID M. JOHNSON, CEO, Westport Fuel Systems

I don't have a look on seasonality so much. Basically, we see the forecast from our customer. They give that to us, and then it moves around, and then we deliver to their orders. We're really kind of on the tail of this as opposed to the of the spear. We are a supplier to that customer of ours, and we react. But as a general premise, I don't know of any specific seasonality in that marketplace, I'm sure there is some. I'll be able to tell you more about that in a few years than I can right now.

Eric Stine, Analyst, Craig-Hallum

Yes. But did you see sequential growth versus the first quarter, is that something you're able to disclose?

DAVID M. JOHNSON, CEO, Westport Fuel Systems

Yes. We see some modest growth. So, we characterize the launch as a ramp, and we're in a ramp. Of course, we'd always like to see it steeper, and we're working towards that with our customers and adding customers. But yes, it's a ramp for sure.

Eric Stine, Analyst, Craig-Hallum

Yes. Okay. And then maybe just bigger picture on HPDI. As you get out in the market, you mentioned the presentation you gave as the pipeline builds. Do you have any thoughts about where you see the long-term mix, HPDI versus spark in the market?

DAVID M. JOHNSON, CEO, Westport Fuel Systems

Yes. I don't have a mix between the two, but what I do think about is how do the OEMs comply with the regulation, right? So, 2025 is for the OEM business, as you know, right around the corner. Actions need to be taken. Products need to be developed, launches need to be achieved in order for those OEMs to achieve the numbers that are in the regulation for 2025. When I think about HPDI and natural gas offering, a 20% CO2 reduction and the OEMs needing to achieve a 15% reduction on their fleet seems like the mix has got to be pretty high, and so I think that bodes very well for us. And I've been really racking my brain around what other alternatives could be in the mix, and certainly there will be other things, but I don't see them on the marketplace today, right? So, you can't go by a long-haul electric truck or a long-haul fuel-cell truck or some other thing, so I'm really scratching my head trying to figure out what else could be in the mix to help the OEMs achieve their goals. It's very, very bright future for the technology, and we're excited about what we do with our customers kind of behind the curtain right now, and then out in the field with our launch customers.

Eric Stine, Analyst, Craig-Hallum

Yes. Absolutely maybe last question for me. You mentioned the provision, the $4.5 million provision to estimated cost to complete and resolve the SEC process. Is that something that we should take as a positive sign that you're getting close to wrapping that up?

JIM MACCALLUM, Acting CFO, Westport Fuel Systems

Yes. We can't say a lot about it, Eric, but currently we have an estimate now that we're able to accrue for the cost that we think that we're going to have to complete and resolve the investigation.

Eric Stine, Analyst, Craig-Hallum

Okay, that's great. Thanks.

JIM MACCALLUM, Acting CFO, Westport Fuel Systems

Thank you.

DAVID M. JOHNSON, CEO, Westport Fuel Systems

Thank you, Eric.

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, Investor Relations Representative, alphaDIRECT Advisors

Thank you, everyone, for joining us today. If you have any follow-ups or any additional questions, please reach out to us at Westport Fuel Systems Investor Relations at 604-718-2046. Thank you.

Operator

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