Operator

Welcome to the Westport Fuel Systems' Fourth Quarter and Fiscal Year 2019 Financial Results Conference Call.

As a reminder, all participants are in listen-only mode; 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, you may signal for 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 Representative, alphaDIRECT Advisors

Thank you and good afternoon, everyone. Welcome to Westport Fuel Systems' Fourth 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, speaking on behalf of Westport Fuel Systems, is Chief Executive Officer, David Johnson, and Chief Financial Officer, Richard Orazietti. 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 as 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?

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Good afternoon. Thanks for joining our conference call to review Westport Systems' Q4 and Year-End 2019 Results.

Twenty-nineteen was a great year, a pivotal year for Westport Fuel Systems. Each of our businesses delivered improved operating results on the top line and on the bottom line. I'm proud that in 2019 we made another big step in our transformation into a profitable and sustainable Company, building on our prior-year improvements with another year of double-digit percentage gains.

Westport Fuel Systems' portfolio of clean technology solutions, distributed to markets around the world and supporting our light-duty and heavy-duty OEM customers and partners, is reducing the environmental impact of transportation, and our products are doing so in a cost-effective way. This is critical, as it enables our technologies to reach the scale required in our industry and for our environment.

There have been a number of important market developments since our Q3 call, and I'll walk through these in a moment, but first, I want to share the headline financial results shown on the next slides.

I'm pleased and proud of our latest achievements; continued sales growth of HPDI, combined with the strength in our independent aftermarket and light-duty OEM businesses resulted in annual revenue of $305 million, up 13% over 2018 and up 33% from 2017.

Net income from continuing operations increased by $41 million year-over-year; that is, in 2018, we lost $40.8 million, while in 2019, we moved to the plus side, earning $0.2 million. It's a big accomplishment and a very good step.

We recorded our seventh consecutive quarter of positive Adjusted EBITDA, and we delivered our first full year of positive EBITDA. These results are evidence that our clean, cost-effective market-ready technologies are the answer to the increasing global demand for sustainable transportation. For passenger cars, for light commercial vehicles, for transit buses and heavy freight haulers, Westport Fuel Systems has the products that reduce emissions, clean the air, save money, and can achieve meaningful scale.

Now, let's review some market developments. COVID-19 has introduced historic uncertainty for all of us. Our priority is the health of our team, our partners, suppliers, and customers, and all of our communities that we work in around the world. We are closely tracking and monitoring the data, developments, and expect recommendations from around the world and doing our best to respond. While it's not possible to predict the future, we are working hard, in real-time, to mitigate the impacts of this pandemic.

I'd like to recognize the commitment, dedication, and responsiveness of our global team. As announced yesterday, we have suspended production at our plant in Brescia, Italy, which is near the epicentre of the outbreak in Italy. Over the last few weeks, our team in Brescia worked tirelessly to accelerate production and deliveries to all our customers, while simultaneously taking all possible actions to mitigate coronavirus risk in our workplace.

Similarly, our operations in Cherasco and Albinea, Italy, are also taking action, and so far have been able to maintain production and continued delivery to our customers. The combination of the actions we've taken to secure alternate suppliers, accelerate purchase orders to increase raw material inventories, and to protect our team members, has minimized disruptions to production and supply.

Despite all our preparations, all our planning and all the actions we've taken so far, and despite our best continuing efforts to manage our operations and meet our customers' demand, the implications of the pandemic and the actions being taken to respond to the pandemic are uncertain.

We don't know how much market demand will be affected, and if it is an adverse effect, we don't what government actions may be taken nor how effective those actions will be, and of course, uncertainty itself is a significant market headwind. Nonetheless, we are convinced that the longer-term prospects for our products and our Company are strong.

In China, while the rate of COVID-19 cases is now slowing, the combination of the initial outbreak and the mitigating measures taken by the Chinese government during the first months of this year, have delayed the timing of the certification for our HPDI-equipped engines. Our Weichai-Westport joint venture has been working to complete the emissions testing and certification with the Chinese Ministry of Ecology and the Environment, and also with the Chinese Ministry of Industry. There are many steps in the certification process, including engine dyno testing for emissions, OBD certification testing, and vehicle testing with a portable emissions measurement system.

Following all these tests, there are the administrative proceedings of the certifying agencies in China. We are almost done; there are no technical barriers to completion, and we look forward to sharing the accomplishment with you when we reach the finish line.

While the delay, compared to our plan, affects the timing of the commercial launch and the production and sales ramp that follows, we do not expect that it will change the shape of that adoption curve, and that the long-term potential of this product in the Chinese market, the largest natural gas commercial vehicle market in the world, is quite compelling. We have a great partner, a great product, and a large market to serve.

In our Q3 conference call, I spoke about scale and how critical scale is in the transportation sector. Scale means production volume, sales volume, and market shares that make a material difference, both economically and environmentally.

In transportation, scale is enabled by products that deliver what customers require: products that reduce a customers' total cost of ownership, and products that enable OEMs to meet regulations at the lowest total cost.

To scale, solutions must be affordable, cost-competitive, easily accessible, and must meet the most stringent customer and regulatory requirements in terms of engine and vehicle performance. Criteria are air pollutants and CO2 emissions.

The next slide shows how natural gas is gaining momentum in heavy-duty trucking. Until recently, the growth in Europe of natural gas fuelled heavy-duty trucking has been limited by availability of product and our refuelling infrastructure. But now, with recently added products like HPDI and new CO2 regulations, we are seeing a dramatic increase in the availability of LNG in large markets like Germany, Italy, Spain, and France, as well as in smaller markets, like the Netherlands, Sweden, and Belgium.

The LNG refuelling infrastructure has grown nearly 90% in just the last two years, and there are now 264 LNG stations spanning 18 European countries. The dramatic growth in the number of refuelling stations is happening in parallel to the growth in our heavy-duty trucks. The Natural Gas Vehicle Association in Europe just released 2019 sales figures, and reports that there were more than 4,500 new vehicle registrations for LNG-fuelled heavy-duty trucks. That's up 175% from 2018.

Regulations, combined with product availability, refuelling availability, and winning economics are driving a real-time market response. I want to remind you that Westport's HPDI 2.0 beats the 2025 requirement to reduce CO2 emissions by 15%, and with renewable gas, and our other vehicle efficiency improvements, enables OEMs to meet the 2030 mandate of a 30% reduction.

I'd like to flag another notable market development. On January 16 of this year, Shell announced that they will build nearly 50 LNG refuelling stations in Germany. These stations will supply a blend of fossil and renewable natural gas that will make their LNG supply carbon-neutral. A recent analysis demonstrates there is sufficient renewable gas feedstock to fuel the entire truck segment in the European Union.

The potential to get to net zero carbon for trucking in Europe, and globally, using HPDI and renewable natural gas, is available now, and it can be done at a competitive total cost of ownership compared to other technologies, and with no compromise in performance, reliability, or durability.

In addition to HPDI for the heavy-duty market, Westport Fuel Systems have strong light-duty OEM in the independent aftermarket businesses. The Natural Gas Vehicle Association in Europe estimates that the current gas vehicle fleet of 1.4 million vehicles in Europe will grow to 13 million vehicles by 2030. That's a significant, nearly a 10-fold increase.

Let's take a closer look at what happened in 2019. There were nearly 70,000 CNG passenger car registrations last year, compared to 50,000 in 2017. That's a 40% growth rate over two years. Italy had 55% of these registrations, followed by Germany at 11%, and Spain and Sweden at nearly 8% each. There are now 3,700 CNG stations in Europe; that's up 10% in just one year. Italy and Germany have the largest number, and eight more European countries have more than a hundred CNG stations each. It's a well-developed network.

Looking to Asia, we see a strong and growing market opportunity. In China, the LNG truck market is already the largest in the world, and about 80% of the LNG trucks sold globally are sold there. Recent projections show that heavy-duty LNG trucks could approach a 20% share. Our joint venture, Weichai-Westport, is the leading natural gas engine supplier in China and poised to grow with the launch of HPDI 2.0.

In India, the growth of CNG vehicle sales is being driven by a fuel price advantage, stringent emissions regulations, a proposed diesel ban, and the build-out of the CNG refuelling infrastructure. In January of this year, the Indian government announced a plan to more than double the share of natural gas in the country's energy mix, to 15% in 2030, up from 6% currently.

The Energy Ministry also proposed a reduction in the goods and services tax on CNG vehicles. This reduction would drop the price of a CNG vehicle by more than 20%. An already-compelling payback would become even more attractive, thereby driving the increased adoption of CNG vehicles. In fact, one of our customers expects natural gas vehicle sales to be greater than 30% of their future sales mix, up from 7% currently.

The Indian government has plans to build 10,000 CNG stations by 2030, up from the current 1,700, and LNG is also expected to gain greater market share as TOTAL and Adani Gas recently announced their plans to build 1,500 LNG stations in India over the next 10 years.

Westport Fuel Systems sells products into more than 70 countries through an extensive distribution network. Our independent aftermarket business enables conversion of the existing vehicle part to CNG or LPG, so our customers can realize fuel cost savings and also reduce emissions.

The global market for LPG/CNG conversion kits is approximately 1 million kits per year, and our aftermarket business has approximately a 30% share. Argentina, Italy, Poland, Russia, and Turkey are well-established and critical markets for our products, markets where LPG and CNG are achieving scale.

Westport Fuel Systems is well-positioned to capitalize in this compelling market opportunity. The continued strength of our OEM and aftermarket businesses, the growth of HPDI in Europe, and the upcoming production launch of HPDI in China are keys to our success in 2020. I'm confident that we can weather the current headwind and continue to deliver against our 2020 strategic priorities.

Let's look at those priorities. Number one, sustained growth and profitability of our aftermarket business; number two, successful launch of HPDI in China; third, new light-duty and heavy-duty OEM customers; and fourth, continued focus on material and structural cost reductions.

We're pleased and proud of our 2019 results. The fundamentals that drive market demand for our products will persist and grow increasingly urgent as we work through the new market headwinds developed just in Q1 of this year.

Now, let me turn it over to Richard to review our financials.

RICHARD J. ORAZIETTI speaking

Chief Financial Officer, Westport Fuel Systems

Thank you, David.

As David outlined from the start, Westport Fuel Systems had strong financial performance during Fiscal Year 2019. For the year, revenue increased by $35 million to $305 million, a 13% increase, driven mainly by significant growth in our OEM business of $29.2 million, primarily from higher HPDI product sales in Europe, and development revenues. Our independent aftermarket business generated a year-over-year increase of $5.8 million due to strong demand for its aftermarket and delayed OEM products.

Although gross margins increased by approximately 6% to $68 million, our gross margin percentage softened due to the increasing mix of lower-margin HPDI sales. Besides increased gross margin, much of our earnings improvement in 2019 was also due to the $9.4 million decrease in SG&A expenses in 2019 compared to the prior year, mainly from the impact of lower Euro and Canadian dollar average exchange rates, lower costs related to the SEC investigation year-over-year, and lower professional fees.

Further, we had a $4 million increase in equity income from CWI from strong performance in the joint venture. CWI had a 13% year-over-year increase in revenues to $362 million, and lower warranty adjustment that led to a 17% increase in net income of $53 million, of which $26.6 million was to our account.

At the end of the day, we generated the first net income from continuing operations of $0.2 million compared to a loss of $40.8 million in the prior year. Looking at our cash flows; we generated adjusted operating cash flow of $9.3 million compared to negative $4.2 million in the prior year, driven by the better operating results, but partially offset by negative working capital changes.

Financial discipline is a priority for us, and we continue to ensure cash flow generated is allocated to investing in HPDI and our other businesses to augment capacity, product development and automation, amongst other things. A significant portion of our cash is also set aside for the repayment of our debt, which resulted in a net cash outflow of $14.8 million.

Turning to the fourth quarter, revenue increased by $13.8 million to $74.3 million, a 23% increase, driven mainly by the growth in our OEM business of $5.5 million year-over-year, primarily from higher HPDI sales and service revenues.

Our independent aftermarket business increased year-over-year by $8.3 million, due to a strong demand for its aftermarket and delayed OEM products compared to a softer quarter in 2018.

Gross margins increased by approximately 12% to $13.8 million due to higher sales. Our gross margin percentage softened, as expected, due to the contracted price reductions and additional warranty expense related to the HPDI ramp. Year-over-year, SG&A decreased by $2.3 million, mainly due to the termination of the SEC investigation, and lower professional fees.

We had a $1 million increase in equity income from CWI. During the quarter, CWI generated a 9% year-over-year increase in revenues to $102.5 million, and lower warranty adjustments that led to an 18% increase in net income of $13.5 million, of which $6.7 million was to our account.

During the quarter, we generated our second consecutive quarter of net income from continuing operations of $0.7 million, compared to a loss of $10.4 million in the prior year.

Looking at our quarterly EBITDA and Adjusted EBITDA numbers; taking a look at our profitability and ability to generate cash flow from another lens, we generated our fourth consecutive quarter of positive EBITDA, which amounted to $24.9 million for the Fiscal Year 2019, compared to negative $13.5 million in 2018. Adjusting for some non-recurring and non-cash items to provide a more comparable measure year-over-year, our Adjusted EBITDA improved to $28.4 million in 2019 compared to $9.6 million in the prior year.

Our 2020 outlook; we are closely tracking and monitoring the impact of the COVID-19 virus on our business, including our operations in China and Italy. Given the high degree of uncertainty in the markets around the world we sell into, especially the European market and the recent drop in oil prices, we expect the current headwinds that are developing now and very much fluid, may persist for much of the rest of the year.

While our businesses are growing, the impact of the COVID-19 virus on the business environment and our own operations, it is not possible to project with confidence the full-year impact on our customers, suppliers, and operations. Despite these headwinds, we are working to continue the growth of our business for the long-term profitability, and ensuring we have the liquidity to invest and operate our businesses and meet our obligations.

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

Operator

Thank you. We’ll now begin the question-and-answer session. Analysts who wish to ask a question 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.

The first question comes from Eric Stine. Please go ahead.

Eric Stine - Analyst, Craig-Hallum Capital Group

Hi, David. Hi, Richard.

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Hi, Eric.

Eric Stine - Analyst, Craig-Hallum Capital Group

I certainly can appreciate the uncertainty, and I get the outlook, but just, in the context of that, I would love to hear about some of the priorities, and just maybe where your confidence lies in the form that you've provided; whether you rank them or just talk about them a little bit.

On the one hand, you've got uncertainty near-term, on the other hand, you've got some confidence, certainly over the long-term but even in 2020, as you've pointed out, sustained growth in profitability in the light-duty business.

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Yes, glad to talk about it, Eric, and good to have you on the call.

As a general premise, I feel very good about our business. All the fundamentals that we talk about in this call and prior calls and in conferences before, I believe they're there and actually strengthening. We talked about more fuel systems in Europe, we talked about this regulation coming closer and closer. Another factor, just to give an example in the aftermarket business, all those shift of sales from diesel-powered vehicles, passenger vehicles, to gasoline-powered vehicles as people, again, move away from diesel. That creates more vehicles that we can convert to natural gas and LPG.

The fundamentals of our business are, in my view, very strong, and my outlook is great. The challenge for us, of course, is we've got a plant closed in Italy right now, and I expect to open that plant back up after a two-week shutdown, but I don't know that. I don't even know that two weeks from now.

I have to see how the conditions develop in the marketplace, and if people are able to come back to our factory and do the work that needs to be done—and when do we expect to do that? We don't know it.

I think frankly, in the grand scheme of things, the macroeconomic situation in the world today is so uncertain in terms of what kind of responses we're going to get from the government and how they're going to spur the economy to return to the robust level of commerce that drove our order book that we still have today. We just don't know what our order book looks like in the future as a result of that.

And if I go far afield to a place like China, I think they've gone through their own phase of COVID-19 and all the disruption that caused, but their need to transport goods in that country will not abate. They have invested heavily in LNG infrastructure, and the HPDI product that we will launch there in short order should be really great in the marketplace, and we expect big things from it.

Again, probably not a hockey stick curve on that right away. Even in China, people are going to buy the truck, evaluate the truck, before they buy 2 or 5 or 10 or 20. There's still that commercial vehicle adoption curve, which isn't a step-function change.

Those are kind of all the things I think about when I think about, what does the future look like and where do I see us going.

Eric Stine - Analyst, Craig-Hallum Capital Group

Yes, no, understood, understood. There's a lot of uncertainty, kind of an understatement.

But maybe just on China, and obviously, things complicated by what's going on; but maybe, could you just talk about maybe some of the things—and maybe it's prior to the last couple of months, but some of the things—even though certification not yet in-hand, what you are doing in the market, what Weichai is doing in the market, and just some of the feedback or thoughts you're getting from fleets, truck OEMs, in anticipation of this engine.

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Yes, I think there is heavy anticipation, and we're working through our joint venture with a number of OEMs to have them see the product, feel the product, and be ready for the product. That is ongoing work, and they have the same anticipation that, let's say, we do on this call, regarding getting the certification done, starting the production and sales, and seeing the product in the marketplace to see what the end users, the fleets and the individual owner/operators do with respect to buying the product, and what does that adoption cycle look like in China, is it different than what we've experienced in other markets.

We have seen, with the market for natural gas commercial trucks in China, we've seen some significant non-linearity, historically, where basically the market has jumped by 30%, 40%, 50%, based on the kind of economy they have there and the signal they give to the economy in terms of what people should do, and what trucks they should buy, and what fuel is available.

That also could happen with HPDI. I'm not predicting that or saying that's going to happen this year, but I'm just saying if you look at the history of natural gas trucking in China, the growth rates have been very substantial. I think you're quite well-aware of what's happened in the marketplace there.

Eric Stine - Analyst, Craig-Hallum Capital Group

Yes, absolutely. Maybe last one for me, just on the cost side. I know you've cut OpEx quite a bit, just are there maybe some additional levers that you can pull there just in response to the current environment?

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Yes, so I think, as a general premise, we have been working hard at making sure we find every bit of cost to wring out of the Company, as possible. I think we've done really good work on that, as have my predecessors. This is not a new activity for us, and we will continue to do it. I do think we're not done, and I won't go into the specifics of things that I expect to achieve here, there, or the others, but it's an ongoing effort for us. We expect that we'll continue that in 2020.

Eric Stine - Analyst, Craig-Hallum Capital Group

Okay, thanks.

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Thank you, Eric.

Operator

Thank you. The next question comes from Colin Rusch. Please go ahead.

Colin Rusch - Analyst, Oppenheimer & Co. Inc.

Thanks so much. Guys, I know it's early days, but can you talk a little bit about what you're seeing from the supply chain and banks with your working capital? Are you being able to collect on your end, and what are your suppliers looking for from you in terms of getting their payables paid? Then are you seeing any support mechanisms emerging yet from either Italian or EU banks on that front?

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Well, I can talk a little bit about the supply base, Colin, and then I'll hand it over to Richard to talk about the capital markets a bit and what we're seeing with our banks and so forth.

On the supply side, we took early action across our operations to advance our orders and build up some inventory, so that was happening already in early January when we heard about the activities, or the outbreak, if you will, in China. We have a fair number of components that do come from China, and that's an important part of our supply base. As you know, when you're making product, if you're missing one piece, you can't make the product. So, we took action to build up those inventories, and that's worked well for us. We have not had to stop production or slow down production, or short any customer because of a lack of material. So far, so good.

I do believe it's still early days; as you can see in this COVID-19 epidemic, it's not a situation that is one week and done. We have been talking about this now since the early days of January, and I think we've got some time still to go. Every day, we have to work on this with our suppliers. But I would say, no adverse conditions so far in total, but really, we had to stop our production in our plant in Brescia, not because of a lack of material, but because it wasn't a healthy thing for our employees to be in the factory at the time.

RICHARD J. ORAZIETTI speaking

Chief Financial Officer, Westport Fuel Systems

Yes, I would just add, I agree. Go ahead, Colin.

Colin Rusch - Analyst, Oppenheimer & Co. Inc.

I guess I'm more concerned with cash flow than availability of components, so if you could address that as you work through the bank support?

RICHARD J. ORAZIETTI speaking

Chief Financial Officer, Westport Fuel Systems

Yes. As of right now, Colin, in terms of our relationships with vendors and everybody within—kind of all our stakeholders, we haven't seen the pressure yet. Everybody's sort of, in terms of when we're receiving a trade receivable versus a trade payable, we're sort of maintaining those relationships as we were before, so there's nothing really significant yet. Not to say that that pressure won't start happening, especially with our businesses within Italy, there's a very, we'll call it a structure of how things are flowing over there, where the community definitely is supporting each other.

We haven't been the beneficiary or the recipient of any pain out of that process as of right now.

Colin Rusch - Analyst, Oppenheimer & Co. Inc.

Okay.

RICHARD J. ORAZIETTI speaking

Chief Financial Officer, Westport Fuel Systems

Just for the rest of the group and in terms of managing our working capital and our liquidity of the organization, I mean, that's one of the things that, obviously, we were preparing for this, as the situation in Italy was unfolding, that we were responsible with regards to making sure that we were going to meet all our financial obligations, whether those were in our supply chain, but also in our debt, that we are preparing ourselves to make sure that we can weather the storm.

Colin Rusch - Analyst, Oppenheimer & Co. Inc.

Right. Then, we'd love a quick update, and I know it's probably not top of mind, but the CWI relationship, any discussions or update that you have that you can share from the discussions or comments on—and how do you move forward with that agreement and that entity as you come to the end of its life?

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Yes, Colin, it's the question that keeps coming back, and I understand why. Unfortunately, at this juncture, I'm in the same situation I was before. We continue to have those discussions, and we have a very good working relationship with Cummins in those discussions, but I don't have anything that I can share at this point in time with respect to where we'll end up and how it will come out in the end. I've talked to you about the different options that are in front of us, but I don't have any news to share. Sorry for that, but that's just (inaudible 30:28) at this point in time.

Colin Rusch - Analyst, Oppenheimer & Co., Inc.

No, I just wanted to make sure. Thanks so much, guys.

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Thank you, Colin.

Operator

Thank you. The next question comes from Sameer Joshi. Please go ahead.

Sameer Joshi - Analyst, H.C. Wainwright & Co.

Thanks, guys, for taking my call. My question focuses on the Italy situation. You have one facility closed and the other two are operating. In terms of the parts that are being produced or assembled there, is there a bottleneck that has been caused because of this closure?

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

No, I would say not. Maybe just to characterize, just to give you kind of the geography of the situation, our plans in Brescia, Italy is within a few number of kilometres of the epicentre of where the outbreak was; less than an hour's drive, and really, this Northern Italy area is severely affected, and you can read the news about that yourself.

But the other plants that we have are further away and not so severely affected at this point in time. I'm not trying to minimize anything that's actually going on there, but actually, the regional differences are substantial.

In terms of bottlenecks, neither supply by us or to us, that hasn't been a problem. Actually, we were in the early days of—let's say the late days of January and the early days of February, we were actually accelerating our deliveries in response to the news that was coming out as our customers were doing like we did, trying to build up inventories to be more robust going forward through the crisis, if you will.

We met all those requests wherever we could, and I think the team just did an absolutely fabulous job, but unfortunately, at the end of the day, we just couldn't keep running the plant if it wasn't a healthy environment for our employees, and it was really a crisis situation, is a crisis situation, in that part of the world. That was the decision that was taken, and we've been in touch with all of our suppliers and customers; everybody's well-informed and, as Richard alluded to a moment ago, there's a real strong community in that part of the world, and everybody's helping each other as much as they can.

Sameer Joshi - Analyst, H.C. Wainwright & Co.

Right. In terms of cost reductions, I know you talked about them in the context of operations, but given the uncertainty of future revenues, are there any other cost reduction efforts that are planned or (inaudible 33:00)?

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Yes. I would say on the general topic of cost reduction, the one that comes top of mind, and then maybe Richard can jump in, is our cost reduction effort on our HPDI product. This really is tied directly to the volume growth, so we're really excited about what we'll be able to do over the coming quarters with respect to improving the margins on that business.

It's a lot of work; it doesn't happen overnight, but it's on our table to do and it's a priority for us.

Sameer Joshi - Analyst, H.C. Wainwright & Co.

Sort of a corollary question in terms of gross margins, what we have seen is that, as you are increasing HPDI sales, your volume pricing discounts, and affecting gross margin. How does that work in conjunction with these cost reduction efforts?

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

To start with, the growth has been good with our lead customer in Europe, but we have not yet been able to add the volume that we want to see out of our Chinese business. That will really, I think, make a big difference. That's an important part of our business and something we're looking forward to.

Sameer Joshi - Analyst, H.C. Wainwright & Co.

Okay, I'll take my (inaudible 34:22) questions offline. Thanks.

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Thanks, Sameer.

Operator

Thank you. The next question comes from Rob Brown. Please go ahead.

Robert Brown - Analyst, Lake Street Capital Markets

Good afternoon.

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Hey, Rob.

Robert Brown - Analyst, Lake Street Capital Markets

Hi. Just wanted to clarify the Brescia facility; does that just supply your OEM business, or do they supply some of the HPDI product out of there?

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Yes, that plant is supplying OEM business for both light-duty and heavy-duty, so we do make our tank systems that we supply to our European customers at that facility.

Robert Brown - Analyst, Lake Street Capital Markets

Okay, good, thanks for clarifying. Then on the China HPDI ramp, realizing it's uncertain when you get that certification, but what steps sort of happen after you get certification? When does that hit the market, what are the steps that you need to follow once you get the certification?

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Well, one of the things that's very different with this launch in China, besides the completely different market than the European market, in terms of being more well-developed and receptive and available, more refuelling infrastructure, but I would say one of the most important things that's different, and that we, therefore, don't have a total feel on, is that actually, our joint venture there makes engines, and then we sell engines to truck manufacturers.

There is this potential, and then we're doing the work now with multiple OEMs, so that we can have multiple OEMs launching this product and competing with each other in real-time. The launch curve could be a different launch curve than what we experienced with Volvo because it'll be a sum of a number of launch curves from different customers. We have to see how that plays out over time, but that would be kind of a key difference that we see as an opportunity going forward.

Robert Brown - Analyst, Lake Street Capital Markets

Okay, good, that's excellent. Then I think in the prepared remarks, you mentioned that LNG truck registrations in Europe—you gave a number. Could you kind of clarify what that was, and sort of, maybe the trend line there again?

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Yes, so there's a chart in the materials that we posted that shows kind of the fleet of vehicles in Europe. We're up to 11,000, I think, is the number. Yes, 11,000 units on the roads, basically. But what the other number that I gave was 4,500 units just in this past year that were registered, new registrations. I think that's giving you a good idea, and the knee in that curve is very clear; around 2017-2018, you really started to see an expansion of the market in Europe as people started to adopt these trucks. That comes from a couple of factors.

One is more refuelling infrastructure; it's been growing quite rapidly over the last couple years, as we talked about, and also more product available. Back in the early days of LNG, back in 2012-2013, it was just IVECO with their spark-ignited product, but in the 2016, 2017, 2018 time, we had the launch of our product, HPDI, with our customer, as well as Scania with their spark-ignited product. Now you have more and more product coming on the market, more refuelling infrastructure, and a really nice trend line that we expect to follow and accelerate.

Robert Brown - Analyst, Lake Street Capital Markets

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

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Thanks, Rob.

Operator

Thank you. Once again, if you wish to ask a question, please press star, one.

The next question comes from Jeff Osborne. Please go ahead.

Jeffrey Osborne - Analyst, Cowen Inc.

Thank you, good afternoon. A couple questions on my end. Going back to Italy, can you just talk about, other than Brescia, the other two facilities; what do those make? Then, are they reliant on products or any components coming out of Brescia?

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Yes, there is some interdependency, and we again tried to build up stock relative to that interdependency, as we saw that the closure was going to be required.

But for the most part, the plant in Cherasco is our aftermarket business in large part, supplying components for LPG and doing our DOEM services for our customers, our OEM customers.

As well, our plant in Albinea is a component supplier of injectors. We're probably, by market share, the largest supplier of injectors for aftermarket kits around the world, so we supply our own kits, plus we supply other companies' kits, so quite a few components coming out of that plant.

Jeffrey Osborne - Analyst, Cowen Inc.

Got it, that's helpful. Then you mentioned, I think in the prepared remarks, referencing the European data from NGV Europe that, I think, 55% of the market for CNG was Italy. Can you give us an update, just your broader light-duty vehicle mix across all different fuel types? How much is Italian-centric demand?

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Yes, Italy is a very important market for us, and there's no question about it. We are a dominant player in that market, and it is the largest market for our CNG and LPG vehicles, and therefore, kits, in the European Union.

But there are other very important markets, like Russia, Turkey, Poland—our business very far away in Argentina is also a very important piece of the puzzle. There is other business, and of course we have a strong business in places like Germany and the Netherlands, kind of in the Northern European region, especially with our Prins product there, which is built in a different plant in the Netherlands.

Jeffrey Osborne - Analyst, Cowen Inc.

Is it safe to say about half? Is that fair? I'm just trying to put it in perspective. If the total market's 55% and you're the leading player, give or take, half?

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

I don't have a number for you. I'd like to come back to you on that one, Jeff.

Jeffrey Osborne - Analyst, Cowen Inc.

Okay, no problem. Then the 44,510 trucks that were registered, LNG-based, I think IVECO, at their Analyst Day, highlighted over 50% share—obviously, Scania's been around for a few years. Any sense on the market share in year one, or any thought process on how that evolves, just given the competitive market over the next year or two?

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Yes, so, general comments on that, I don't have any specific market shares that I can share with you. I do believe a lot of that data's available, I just don't have it handy myself to share with you. But what I would say is that, spark-ignited products in Europe for natural gas in commercial trucking, and in China also, but simply we're talking Europe here, is well-known. IVECO's been out there kind of leading the way with that product in the marketplace for, coming up on 10 years now. When Scania came in and joined, it was kind of, from my perspective and the market's perspective, "Okay, here's another product like that that we know." Right? It's the same kind of product, something we know.

But when HPDI comes out, everybody's like, "Oh, what's that? It's a little different." So, the adoption curve for that's been, I would say, not the same as you would with a spark-ignited product because it's not so well-known and it's something new and novel, and people have to get used to it. I think there is that element of the adoption curve. That means that we still have some acceleration left to do, I would say quite a bit, with the HPDI product with our customer in Europe.

Jeffrey Osborne - Analyst, Cowen Inc.

Is that more in your court, or your launch customers, or both, just so I'm clear on that?

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

No, I think that's almost entirely on our customer. What I expect, in the marketplace, it'll be interesting to see how it plays out, but right now in Europe, the industry is creating the baseline for the CO2 standards. The baseline for CO2 standards being that 15% number, and the 30% reduction that's due in 2030. These are going to be measured against the baseline that's being created now. Really, kind of across the industry, from a math perspective and a compliance perspective, there isn't a strong push that says, "Let's go sell a lot of low-carbon product," because that just makes the future challenge even greater.

After June 30 this year, it'll be interesting to see how the market develops and how all the players act.

Jeffrey Osborne - Analyst, Cowen Inc.

Got it, that's helpful. My last question is, I just wanted to try to drill down a little bit more on China. You gave some incredibly helpful detail around the various tests, dyno emissions, various vehicle testing, and then an administrative proceeding, then you sort of characterized the process as, I believe you said almost done.

I'm just curious, have you done all the three tests that you referenced, and are you in the middle of the administrative process, or have you not done the tests? It was unclear where we are in that journey.

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Yes, no, thanks for asking. The process includes these three tests, as you reference, and we have one left to do. It is the last one you do, which is the on-vehicle, and this is when you have to coordinate with your vehicle partner, right, because our JV does not make vehicles, so we have to work with the vehicle partner. Then we have to have the compliance agency there. It has been a difficult logistical challenge, which is why it's not done yet, and we expect to be done shortly.

I don't know how long the paperwork process takes, but hopefully that too can be expedited, so we can start delivering product.

Jeffrey Osborne - Analyst, Cowen Inc.

Got it. Then maybe the last one quick one, I think I said the prior one's the last one, I apologize. But here you are with just under $50 million in cash, uncertain outlook; I assume not a big CapEx burden for this year, but how do we think about decremental margins for every, say, 10% drop in volume. Is there a meaningful impact that we should consider, just given the uncertainty over the next quarter or so—in terms of cash burn and other facets that I think a few of the prior analysts were asking about as well?

RICHARD J. ORAZIETTI speaking

Chief Financial Officer, Westport Fuel Systems

Yes, without going into too much detail, I mean, obviously the second quarter will be some pressure there. Like I said, I'm not going to give any guidance in terms of how much margin pressure we could actually see, but you can calculate those from the statements there.

Like I said before, we're now trying to see kind of, how we can actually weather the storm, with regards to making sure that liquidity's in the organization and that we're able to continue growing and investing in HPDI. In terms of a CapEx program this year, like you mentioned, it's not a big spend; we're looking to augment a little bit of injector capacity there, specifically for Weichai and our European launch partner. As of right now, we're in good shape.

Jeffrey Osborne - Analyst, Cowen Inc.

Got it, thank you. Very helpful.

DAVID M. JOHNSON speaking

Chief Executive Officer, Westport Fuel Systems

Thank you, Jeff.

Operator

Thank you. This concludes the question-and-answer session.

Thank you to everyone for joining us today. If you have any follow-up questions, please feel free to reach out to the Westport Fuel Systems Investor Relations team.

This concludes today's conference call. You may disconnect your lines at this time. Thank you for your participation.