INDUSTRY RATING
Capital Goods: Market Weight
(NBF Economics & Strategy Group)

Transit buses

Competitive landscape changes positions NFI Group for much better financial performance

One of the cornerstones of our positive investment thesis on NFI Group is that competitive dynamics in North America have changed significantly over the past year, which we believe has and will continue to benefit NFI in the coming years. In this report, we focus on how the competitive changes should support strong new bus deliveries for a multi-year period, how the changes further NFI's already strong market position as transit agencies shift demand to zero-emission buses (ZEBs), and we also review NFI's market position in the U.K.

Market changes create more opportunities for share gains

With three of NFI's competitors (Nova Bus, ENC, and Proterra) effectively exiting the U.S. heavy-duty transit bus market in the last year, it has resulted in the U.S. market becoming a duopoly with NFI's New Flyer subsidiary and privately held Gillig. This has created an opportunity for NFI to further grow its ~50% installed base share in the U.S., especially given the significant barriers to entry that make it unlikely a new competitor will enter the market for at least several years.

NFI's positioning for a shift to ZEBs also enhanced

A major transformation is underway as transit agencies transition their bus fleets to ZEBs, supported largely by a significant increase in the availability of government funding, particularly in the U.S. NFI has already had success in winning ZEB orders and is well-positioned to continue to do so, which will be positive from an EBITDA perspective as higher priced ZEBs represent a larger percentage of deliveries. Additionally, contracting changes recommended by a government-industry task force in the U.S. will help fund the working capital requirements for NFI, which have become especially burdensome with more expensive ZEBs becoming a larger portion of total new bus orders.

NFI's U.K. ADL division facing more competition, but demand healthy

While end market demand and the competitive dynamics are clearly more favorable for NFI in North America, bus demand in the U.K. market may be in the early stages of an up-cycle as bus operators replace aging fleets and invest in electrification. NFI's Alexander Dennis (ADL) subsidiary is facing more competition in the U.K. given the lower barriers to entry relative to the U.S., but the company has maintained a strong market position in the region with an estimated ~50% share.

Maintain Outperform; target increased to $21.00 from $19.00

We maintain our Outperform rating on NFI Group shares. We previously valued the stock by applying a 7.0x EV/EBITDA multiple to our 2025 forecast but given our increased confidence on improving financial performance over the next several years, we are increasing our valuation multiple to 7.5x, which results in a new target of $21.00, up from $19.00 previously.

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Market changes create more opportunities for share gains

Three competitors have effectively exited the U.S. market

Recall that last year one of NFI's key competitors in the North American transit bus market, Nova Bus (owned by Volvo Group), announced that it would be exiting the U.S. market and would instead focus production at its facility in Quebec to serve the Canadian market only. Additionally, smaller ZEB-only manufacturer Proterra filed for Chapter 11 bankruptcy while earlier this year REV Group decided to exit transit bus manufacturing altogether by winding down operations at its El Dorado National (ENC) business. The result is that the U.S. market for heavy-duty transit buses has effectively become a duopoly with NFI's New Flyer subsidiary and privately held Gillig while in Canada New Flyer will mainly be competing with Nova Bus (Gillig is not currently active in the Canadian market).

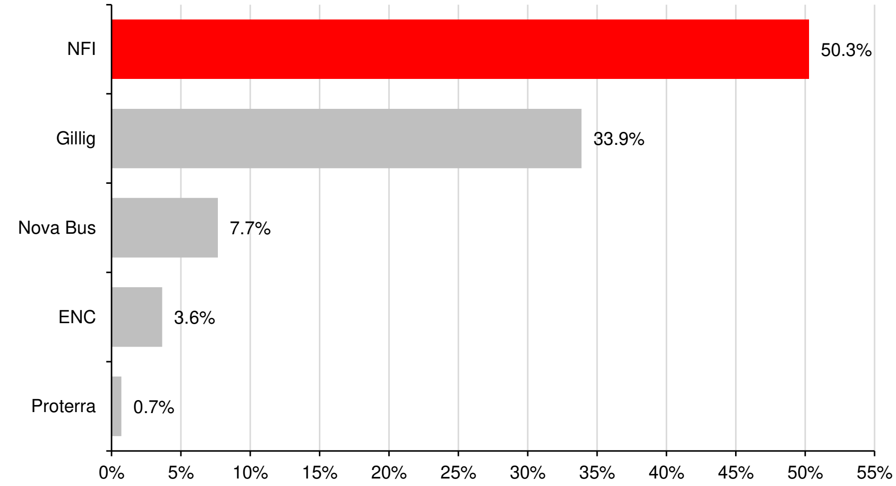
Creating new opportunities for NFI to gain share

According to data from the American Public Transportation Association (APTA), NFI has the highest market share of the installed base of heavy-duty transit buses in the U.S. (as of January 2023, the latest available data) at ~50% of all buses while Gillig has ~34% of the installed base. Nova Bus, ENC, and Proterra collectively hold ~12% of the market (although Proterra makes up just 0.7% of that) so there is an opportunity for NFI to increase its share further over the next few years, also noting that with Nova Bus's exit, NFI is now the only bus OEM manufacturing 60-ft buses for the U.S. market.

Furthermore, NFI is especially well-positioned to benefit given that the company already has a presence at most of the transit agencies that operate Nova Bus or ENC buses. For example, New York City Transit (NYCT) and the Chicago Transit Authority (CTA) are Nova Bus's two largest transit customers in the U.S., collectively operating ~56% of all Nova Buses in operation in the U.S. and whereas neither transit agency operates any Gillig buses, NFI buses make up ~65% of the NYCT fleet (and expected to increase meaningfully following two large orders that were awarded to NFI earlier this year) and ~74% of the CTA fleet. The trend is similar for ENC's two largest transit customers (Pace Suburban Bus in Illinois and the Los Angeles County MTA which collectively operate ~66% of all ENC buses in the U.S.) with neither transit agency operating Gillig buses but both already operating NFI-built buses (with NFI notably making up ~73% of the entire LA County MTA fleet).

While NFI looks to be well-positioned to capture additional market share in the U.S., we also highlight that NFI's top transit customers in the U.S. largely don't operate any Gillig buses. However, Gillig's top transit customers do operate NFI buses (although Gillig is still the dominant player at those transit agencies).

Figure 1: Installed base of heavy-duty transit buses in the U.S.



Note: data as of January 2023

Source: APTA, NBF

NFI's incumbency advantage is further evidenced by looking at the top 25 transit bus operators in the U.S. by fleet size, which collectively make up over half of the total installed base of heavy-duty transit buses in the country according to the data from APTA. As the table below shows, NFI buses are currently being operated by each of the top 25 transit agencies with NFI being the dominant player at most of those. Compare that to Gillig whose buses are being operated by just 12 of the top 25 with no presence at any of the top five. In total, NFI makes up ~69% of all buses at the top 25 transit agencies while Gillig accounts for just ~13%.

Figure 2: Top 25 U.S. transit agency bus operators – fleet breakdown by OEM

Agency	City	State	Total Bus Fleet	NFI Buses in Fleet	Gillig Buses in Fleet	Nova Buses in Fleet	ENC Buses in Fleet
MTA New York City Transit	New York	NY	4,993	3,274	-	1,717	-
LA County Metropolitan Transportation Authority	Los Angeles	CA	2,061	1,501	-	-	554
Chicago Transit Authority	Chicago	IL	1,810	1,343	-	467	-
Washington Metropolitan Area Transit Authority	Washington	DC	1,696	1,690	-	-	-
New Jersey Transit Corporation	Newark	NJ	1,540	1,540	-	-	-
King County Department of Transportation	Seattle	WA	1,433	1,164	66	-	-
Southeastern Pennsylvania Transportation Authority	Philadelphia	PA	1,428	1,130	-	273	-
Massachusetts Bay Transportation Authority	Boston	MA	1,064	1,032	-	-	-
San Francisco Municipal Railway	San Francisco	CA	859	839	-	-	16
Denver Regional Transportation District	Denver	CO	856	116	704	-	-
Metropolitan Transit Authority of Harris County	Houston	TX	780	543	7	230	-
Miami-Dade Transit	Miami	FL	762	545	156	-	-
Maryland Transit Administration	Baltimore	MD	747	676	-	71	-
Pace Suburban Bus	Arlington Heights	IL	727	65	-	-	662
Port Authority of Allegheny County	Pittsburgh	PA	723	132	591	-	-
Tri-County Metro Transportation District of Oregon	Portland	OR	670	237	433	-	-
Metropolitan Atlanta Rapid Transit Authority	Atlanta	GA	658	396	252	-	-
Connecticut Transit	Hartford	CT	631	559	21	51	-
San Diego Metropolitan Transit System	San Diego	CA	579	172	367	-	37
Metro Transit	Minneapolis	MN	572	188	384	-	-
Dallas Area Rapid Transit	Dallas	TX	570	562	-	-	-
Alameda-Contra Costa Transit District	Oakland	CA	557	122	365	-	-
Orange County Transportation Authority	Orange	CA	524	408	-	-	17
VIA Metropolitan Transit	San Antonio	TX	505	170	-	332	-
City of Phoenix Public Transit Department	Phoenix	AZ	500	301	199	-	-
Note: data as of January 2023		**Total**	**27,245**	**18,705**	**3,545**	**3,141**	**1,286**

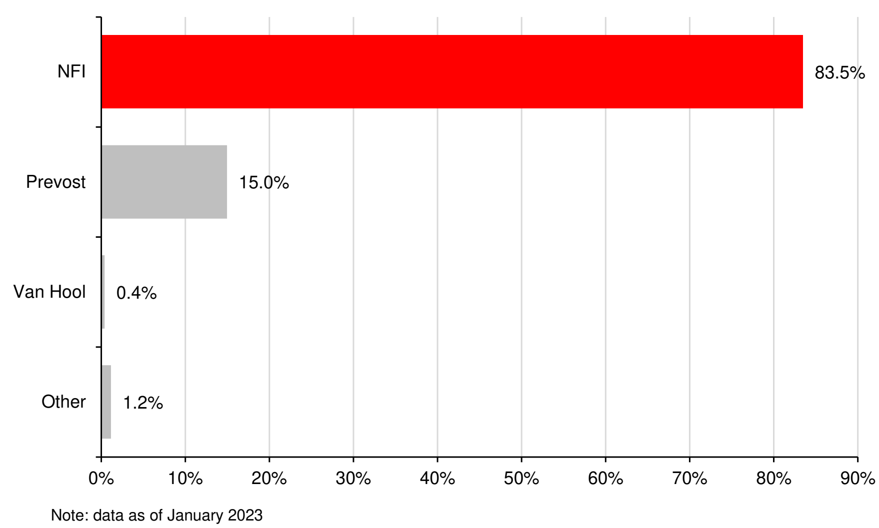
Source: APTA, NBF

NFI's motorcoach market position with transit agencies has also improved

In addition to NFI's improved competitive position in the heavy-duty transit bus market in the U.S., competitive dynamics in the motorcoach market are also trending favorably for the company. While NFI's MCI division already dominates the motorcoach market with transit agencies in the U.S. with over 80% market share, it is also now the only Buy America compliant motorcoach OEM after Prevost (like Nova Bus, also owned by Volvo Group) announced in 2022 that it would be exiting the U.S. market. Notably, Prevost was essentially the only other player of size in the U.S. transit agency motorcoach market, representing ~15% of the installed base. Furthermore, almost all of Prevost's transit motorcoaches in the U.S. (647 out of 660 in total) are in operation with New York City Transit where they make up ~65% of the agency's coach fleet (with NFI's MCI representing the remainder). As such, NFI is very well positioned to gain further share over the next few years.

In the private market sector for motorcoaches (which is much larger than the transit market), the two largest players are NFI's MCI and Prevost, which will continue to build coaches for private operators. Another large manufacturer of motorcoaches for the U.S. private operator market is Belgian-based Van Hool. However, Van Hool has been struggling financially and as part of a recent financial restructuring, the business will be taken over by a group led by the Netherlands-based bus OEM, VDL Group. VDL completed the acquisition of Van Hool earlier in June and as part of the deal, announced a new 10-year agreement with U.S.-based ABC Companies (the distributor for Van Hool's buses to the North American market), suggesting that VDL will continue importing Van Hool motorcoaches into North America for the private operator market.

Figure 3: Installed base of motorcoaches operated by transit agencies in the U.S.



Source: APTA, NBF

Unlikely a new competitor in heavy-duty transit will enter the market for years

A key investor question regarding NFI is how long before a new competitor enters the North American transit bus market. Changes in contract structures for transit bus orders (see below) are being introduced in the U.S. that are primarily intended to boost the health of the remaining bus OEMs in the U.S. However, another goal of the contracting changes from the perspective of the major transit agencies that purchase buses is to encourage new competition in the U.S. market. Although we fully expect a new competitor to enter the North American transit bus market, we do not believe any new OEM will be able to capture a meaningful market position for years, leaving the incumbents, including NFI, in a favorable market position for an extended period.

Significant barriers to entry

The primary barrier to entering the U.S. transit bus manufacturing market is the rules related to the Buy America Act, which requires bus production to be in the U.S. and to be eligible for federal funding, which covers 80% of the cost of a bus for transit agencies. For buses specifically (along with railcars and other rolling stock), over 70% of the cost of the components and subcomponents must be sourced in the U.S. while final assembly must also occur in the U.S. This effectively means that an OEM must have a manufacturing plant in the U.S. (which can be costly) and have a U.S. supply chain in place to source parts before it can start competing on contracts.

In addition to being Buy America compliant, a new OEM entering the market would also have to design a bus for the North American market and have it certified by the Federal Transit Administration (FTA). There are many bus OEMs in Europe and elsewhere that have the wherewithal to build a bus for the North American market, but there are considerable differences in the technical requirements for a North American transit bus including the size and capacity (North American buses are typically larger and can hold more passengers) and location of the driver's seat. The new-entrant buses would also have to be certified by the FTA to be eligible for federal funding, which is an extensive process done at the FTA's Altoona Bus Research and Testing Center in Pennsylvania (known as Altoona testing). The Altoona testing process is extensive with 8 separate tests including 12,500 miles of performance testing. We understand that tests can take up to 15 months to complete and given the limited capacity for testing at Altoona, in some cases the testing process can take up to two years to be completed.

Even once a bus is certified and being manufactured in the U.S., we posit that transit agencies likely will not be willing to award large contracts right away and would instead likely grant smaller, trial orders until the agency is comfortable with the reliability and aftermarket support from the new OEM's bus. With the incumbents (namely NFI and Gillig) already having large installed bases, customer relationships, and established aftermarket support networks, it would take time for a new entrant to win any meaningful market share, in our view.

Who could enter the market?

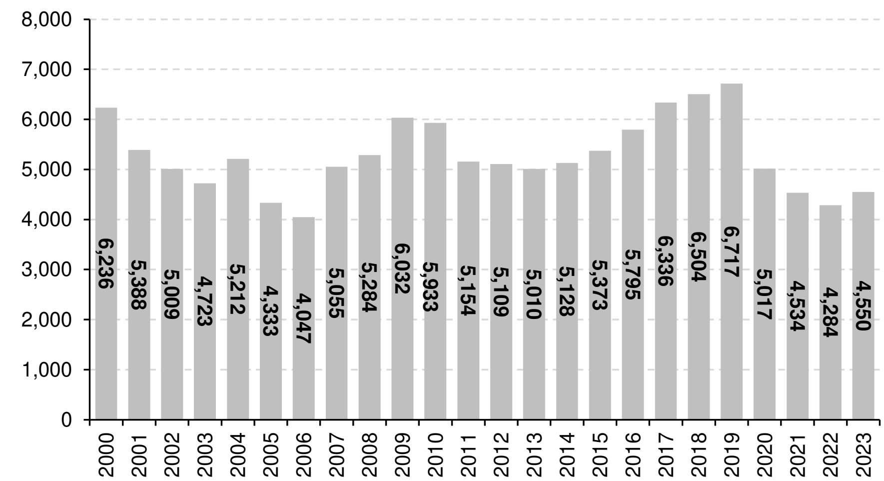
While some international bus OEMs have previously announced plans to enter the U.S. transit bus market, many of those plans have since been abandoned given the financial struggles from some manufacturers as well as regulatory changes in the U.S. For instance, prior to the pandemic, Van Hool was planning to build a U.S. plant to allow it to better serve the U.S. motorcoach market including bidding on transit agency contracts, and over time, potentially using the plant as a base to build transit buses for the U.S. market. However, Van Hool's recent bankruptcy and transfer of assets to VDL likely precludes any near-term U.S. expansion. In another example, following a difficult year financially in 2023, Dutch OEM Ebusco announced in March that it was halting its plans to open production facilities in North America. In recent years, U.K.-based electric vehicle startup Arrival had announced plans to enter the U.S. transit bus market, but subsequently abandoned its electric bus project before the company entered bankruptcy earlier this year. Finally, a ban on federal transit funding for manufacturers linked to China that went into effect late in 2021 eliminates any Chinese OEMs from entering the market (including Chinese-headquartered behemoth BYD, which had been competing for some transit bus contracts).

One possible future competitor is European bus manufacturer Solaris (a subsidiary of the Spain-based CAF Group, which has a U.S. division that manufactures railcars for the U.S. market) who has previously announced its intention to enter the North American market and has had some limited success on that front. In September 2023, Solaris announced that 12 of its trolleybuses were being tested in Vancouver while in March of this year, the company was awarded a contract from New York City Transit for a test fleet of five 40-ft electric buses (noting that because the order is a "test" fleet, there is no Buy America requirement). With CAF already having a manufacturing presence and network in the U.S., we believe Solaris is a strong candidate to enter the U.S. transit bus market in the future. However, we note that given the significant barriers to entry discussed above, it will take at least several years before Solaris is able to competitively bid on RFPs in the U.S.

NFI building backlog to support higher deliveries for an extended period

Since 2000, the number of heavy-duty transit buses delivered in North America industry-wide has averaged ~5,300 per year with fluctuations generally a function of the availability of government funding. Availability of funding for buses from both the U.S. and Canada is currently very strong, but we also highlight that during the pandemic years, industry deliveries were below the average, which suggests that the North American fleet has seen under-investment, which should be supportive of higher deliveries in the coming years.

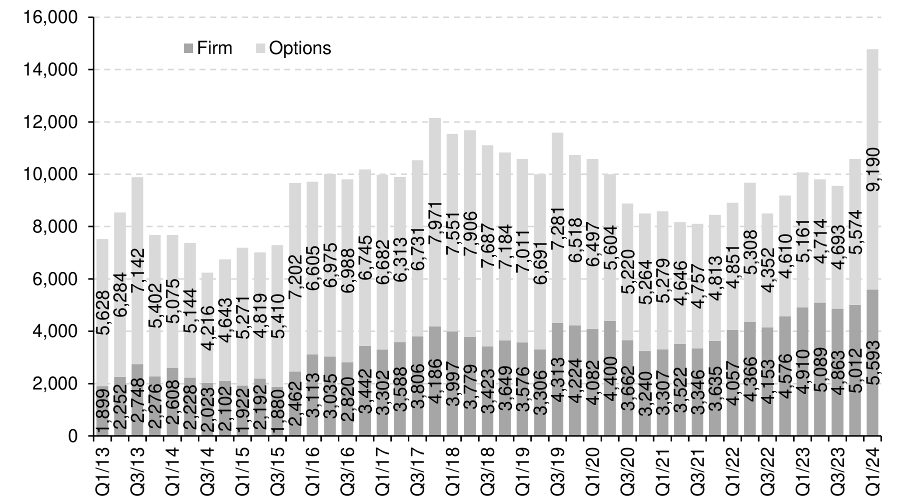
Figure 4: North American heavy-duty transit bus annual deliveries



Source: NFI Group, NBF

NFI is seeing good success in winning orders with 5,421 new orders received in Q1/24 alone, which is helping to further grow its backlog and provide visibility on deliveries through at least 2026. Indeed, at the end of Q1, NFI's backlog stood at 14,783 EUs (firm plus options) worth $11.7 billion, up from 10,586 EUs worth $7.9 billion at the end of Q4/23 and significantly higher than the 10,071 EUs worth $6.7 billion in Q1 a year ago. Furthermore, NFI is capturing orders in large key cities with options that extend out many years. For example, the contract awarded to NFI earlier this year from New York City Transit will see deliveries of the firm orders begin in 2025 but it also has options that extend out as far as 2029. In addition, despite NFI's total bid universe declining slightly from Q4/23 to Q1/24, it remains robust with the five-year procurement outlook (which is based on customer fleet replacement plans) sitting at 21,350 EUs, up slightly from 20,103 EUs in Q1 last year and has grown significantly from the 14,060 EUs in Q1/17.

Figure 5: NFI backlog growth



Source: NFI Group, NBF

One question emerging from the competitive market changes is the ability of the remaining transit bus OEMs to meet the demand. In 2019, NFI's share of North American heavy duty transit bus deliveries was 41%, or about 2,750 units. Gillig's share (with deliveries only in the U.S.) was ~29%, or about 1,950 units. Whereas NFI's New Flyer division has multiple facilities with ~1.5 million square feet in total space to manufacture complete buses, Gillig operates from a single 600,000 square foot plant in California so it may be more limited in its ability to expand production. As such, given its greater manufacturing footprint, NFI may be better positioned to capture market share from the players that have exited the U.S. market.

NFI's positioning for a shift to Zero-Emission Buses (ZEBs) also enhanced

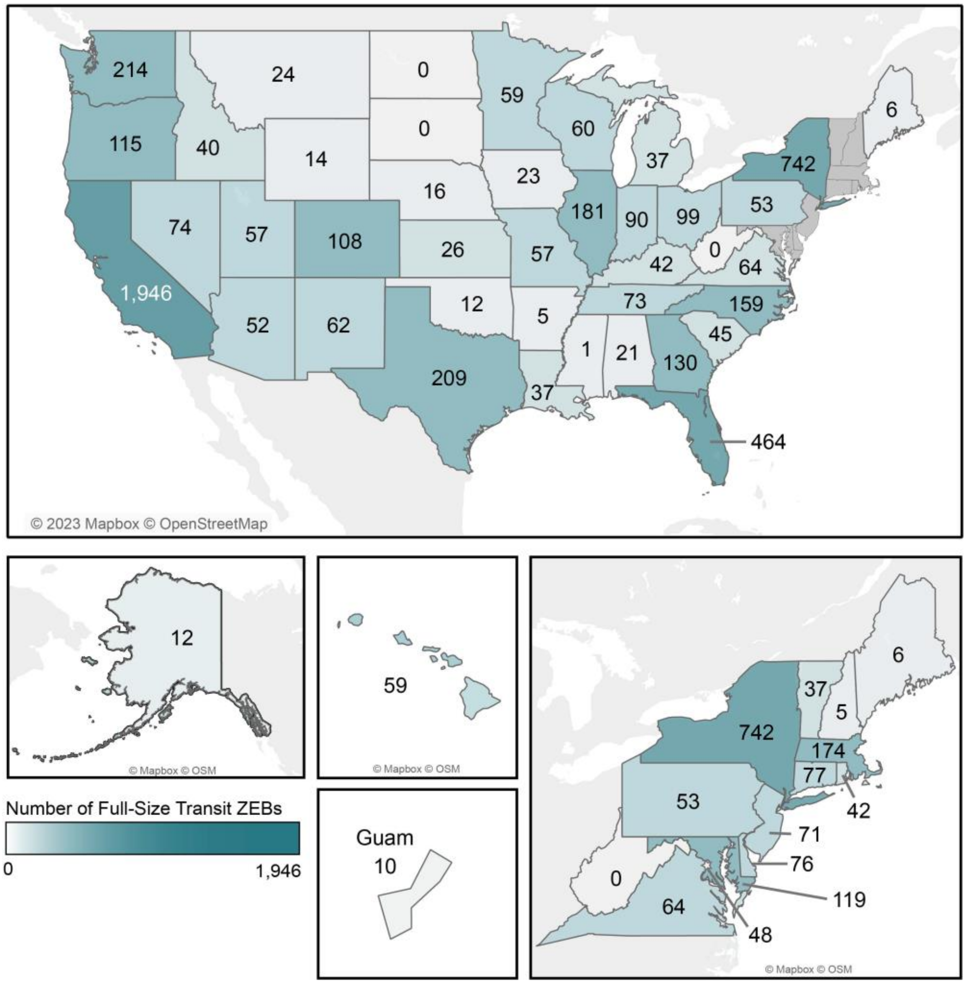
A major transformation is underway as transit agencies transition their bus fleets to zero-emission buses (ZEBs). Based on CALSTART's latest industry analysis from September 2023, there were 6,147 ZEBs in the U.S. (+12% y/y) and another 976 in Canada (+14% y/y), which is collectively ~134% higher than the ~3,000 total ZEBs in Canada and the U.S. in 2020. Globally, the Bloomberg New Energy Finance (BNEF) 2024 Electric Vehicle Outlook highlights that municipal buses continue to electrify faster than other vehicle types and projects that by 2030, more than 60% of new municipal bus sales will be electric with that number increasing to 83% by 2040.

Figure 6: Full-Size Transit ZEBs (30 ft. or longer)

	2019	2020	2021	2022	2023
United States					
Battery Electric	2,181	2,703	3,168	5,269	5,775
Fuel-cell Electric	71	87	129	211	372
Total:	**2,252**	**2,790**	**3,297**	**5,480**	**6,147**
Canada					
Battery Electric	n/a	249	596	849	938
Fuel-cell Electric	n/a	-	10	10	38
Total:	**n/a**	**249**	**606**	**859**	**976**

Source: CALSTART, NBF

Figure 7: Full-Size Transit ZEBs currently funded, ordered, or delivered in the U.S. (as of September 2023)



Source: CALSTART, NBF

ZEB funding robust

A major factor in the acceleration of the adoption of zero-emission buses is the significant increase in the availability of government funding:

United States. In November 2021, the U.S. government signed the Infrastructure Investment and Jobs Act (IIJA) which provides the FTA with $91.2 billion in funding over five years with $5.5 billion going to helping transit agencies fund the transition to zero-emission or low-emission transit buses through the Low or No Emission Grant Program (Low-No), which the FTA notes is over six times greater than the prior five years of funding. An additional $2.0 billion over five years goes into the Buses and Bus Facilities Program which supports transit agencies in buying and updating buses and building maintenance facilities. The FTA announced ~$1.7 billion in total awards for 2023 between the Low-No Program ($1.2 billion) and the Buses and Bus Facilities Program ($0.5 billion) with NFI being named a partner on over $207 million of those (up from ~$200 million in 2022 and just $41 million in 2021). For 2024 (which will be year three of the five-year spending bill), the FTA announced in February the availability of ~$1.5 billion in total awards ($1.1 billion for the Low-No Program and $0.4 billion for the Buses and Bus Facilities Program) so government support for zero-emission buses continues to be strong.

While the current U.S. funding bill runs a few more years, a concern from investors has been whether there would be any changes to transit funding under a new President. However, we note that when the Trump

Administration came to office in 2016, there were no changes to the transit funding bill that was in place at the time with federal funding continuing to move forward. Additionally, a split Congress could make it more difficult for a new Administration to make any material funding changes noting that funding was not significantly impacted in the first two years of the prior Trump Administration when both the Senate and House were controlled by Republicans.

NFI has had success winning ZEB orders

NFI has been successful in winning new orders for ZEBs from large transit agencies in both the U.S. and Canada. Most recently in the U.S., the company announced in April that it was awarded a contract for up to 460 40-ft electric buses (80 firm plus 380 options) from the Massachusetts Bay Transportation Authority (which already operates a fleet of five ZEBs, all of which are from NFI). Additionally, the contract from the New York City Transit Authority that NFI was awarded earlier this year includes orders for 1,130 40-ft electric buses (187 firm plus 943 options) and 290 60-ft electric buses (18 firm plus 272 options). In Canada, NFI was recently awarded a contract from BC Transit for 33 40-ft electric buses while last July the company won a contract from the Toronto Transit Commission for 621 40-ft electric buses (186 firm plus 435 options).

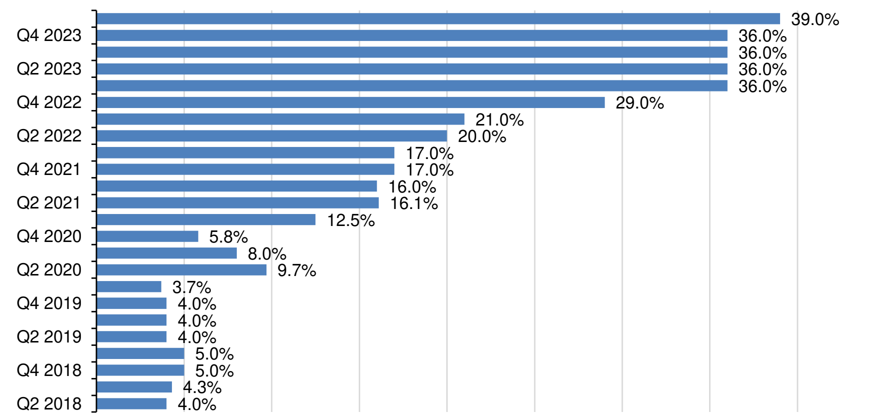
Figure 8: NFI recent ZEB contract wins

Date	Customer	City/Country	Region	Firm Order	Options	Total
22-Jan-22	Universal Coach Line	Richmond, BC	North America	1	0	1
04-Feb-22	NJ Transit	New Jersey	North America	8	75	83
09-Feb-22	Denver RTD	Denver, Colorado	North America	17	0	17
14-Feb-22	New York MTA	New York City, NY	North America	60	0	60
17-Feb-22	RIPTA	Rhode Island	North America	14	0	14
17-Feb-22	National Express Coventry ETaaS	Scotland	United Kingdom	130	0	130
23-Mar-22	Kowloon Motor Bus Company	Hong Kong	Other	10	0	10
21-Apr-22	Mountain Rides	Idaho	North America	7	0	7
25-Apr-22	Blacksburg Transit	Virginia	North America	5	0	5
03-May-22	Central Ohio Transit Authority	Ohio	North America	8	0	8
09-May-22	MDOT Maryland Transit Administration	Maryland	North America	7	0	7
10-May-22	Dallas Forth Worth International Airport	Dallas, Texas	North America	4	0	4
12-May-22	Santa Barbara Metropolitan Transit District	Santa Barbra, California	North America	9	0	9
16-Jun-22	Porterville Transit	Porterville, California	North America	3	0	3
17-Aug-22	SamTrans	California	North America	10	0	10
22-Sep-22	Transport for Greater Manchester	Manchester	United Kingdom	50	0	50
30-Nov-22	San Diego MTS	San Diego, California	North America	13	0	13
22-Dec-22	Pittsburgh Regional Transit	Pittsburgh, Pennsylvania	North America	15	0	15
23-Dec-22	Transport for Greater Manchester	Manchester	United Kingdom	50	0	50
04-Jan-23	Winnipeg Transit	Manitoba	North America	16	150	166
10-Jan-23	Metro Transit	Madison, Wisconsin	North America	46	0	46
17-Jan-23	Central Ohio Transit Authority	Ohio	North America	14	0	14
31-Jan-23	Stagecoach	Oxfordshire	United Kingdom	55	0	55
13-Apr-23	National Express	West Midlands	United Kingdom	170	0	170
28-Apr-23	Regional Transportation Commission of Sout	Southern Nevada	North America	7	100	107
25-May-23	Phoenix Public Transit Department	Phoenix, Arizona	North America	6	160	166
05-Jun-23	Toronto Transit Commission	Toronto, Ontario	North America	186	435	621
23-Jun-23	Miami-Dade Transit	Miami, Florida	North America	100	0	100
06-Jul-23	Go-Ahead London	London	United Kingdom	141	0	141
21-Jul-23	Central Ohio Transit Authority	Ohio	North America	26	0	26
24-Aug-23	Transdev Blazefield	North Yorkshire	United Kingdom	19	0	19
18-Sep-23	Austin CapMetro	Austin, Texas	North America	26	0	26
10-Oct-23	Omnitrans of San Bernardino Valey	San Bernardino County, Californi	North America	22	0	22
13-Nov-23	MTR Corporation	Hong Kong	Other	35	0	35
30-Nov-23	Stagecoach	Scotland	United Kingdom	20	0	20
12-Feb-24	Sound Transit	Seattle, Washington	North America	33	0	33
20-Feb-24	Foothill Transit	Los Angeles, California	North America	12	0	12
11-Mar-24	New York MTA	New York City, NY	North America	205	1,215	1,420
29-Apr-24	Massachusetts Bay Transportation Authority	Boston, MA	North America	80	380	460
17-May-24	BC Transit	British Columbia	North America	33	0	33
11-Jun-24	Reading Buses	England	United Kingdom	24	0	24
25-Jun-24	Stagecoach	England	United Kingdom	244	0	244
			Total	**1,941**	**2,515**	**4,456**

Source: NFI Group, Company Reports, NBF

For NFI, ~39% of its current backlog (as of Q1/24) is for ZEBs, up from ~36% at the end of Q1 a year ago and more than double the ~17% in Q1/22. Furthermore, ZEBs account for ~52% of NFI's total North American bid universe which is roughly flat y/y but up from ~43% in Q1/21 as transit agencies continue to revamp their fleets with zero-emission buses. While ZEBs are making up a growing portion of NFI's backlog, they are still a relatively small piece of total deliveries for the company, representing just 22% of 2023 deliveries (and 18% of Q1/24 deliveries). Industry-wide transit bus deliveries in North America in 2023 were only ~10% ZEBs, but their delivery share will grow, noting that NFI is targeting 40% of its total bus deliveries in 2025 to be ZEBs.

Figure 9: NFI – ZEBs as a percentage of total backlog



Source: NFI Group, NBF

NFI ZEB market share should grow

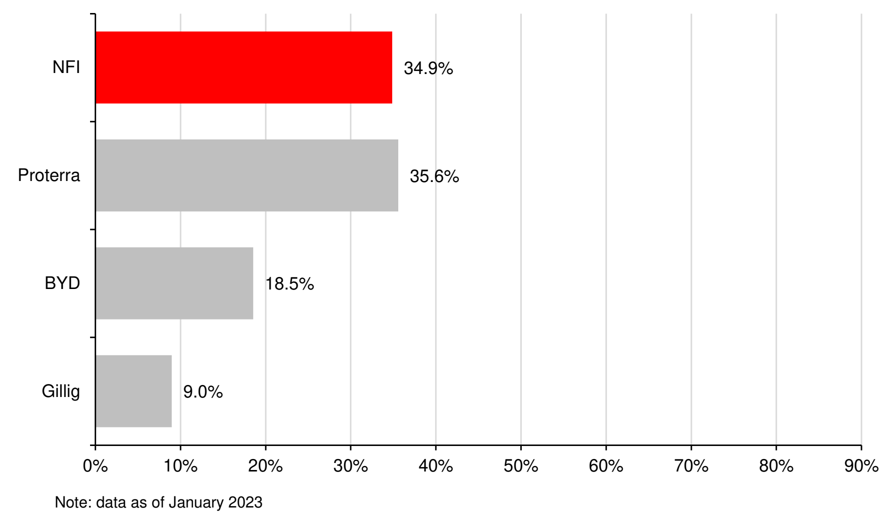
As of January 2023, NFI and Proterra had similar shares of the installed base of zero-emission buses at transit agencies in the U.S. with NFI making up ~35% and Proterra ~36%. The remaining share was primarily made up of BYD (18.5%) and Gillig (9.0%). While the shift to ZEBs and the availability of government funding have been tailwinds for NFI in growing its ZEB backlog (and will likely continue to be), NFI is well positioned to continue winning future orders given Proterra's bankruptcy last year and the fact that BYD can no longer deliver buses to the U.S. We note that Proterra's transit bus manufacturing division was acquired by PhoenixEV (previously called Phoenix Motorcars – Phoenix Motor Inc. (NASDAQ: PEV, not rated)) earlier this year and while the company has stated that it intends to continue bus production (existing capacity to build over 600 buses per year although prior delivery peak was closer to ~200 units), we are skeptical that a meaningful number of customers will be willing to place orders given Proterra's recent bankruptcy as well as PEV's small size (just ~$3 million in revenue in 2023 with a market cap of ~$20 million).

Figure 10: Top 25 U.S. transit agency ZEB operators – fleet breakdown by OEM

Agency	City	State/ Province	Total ZEB Fleet	NFI ZEBs in Fleet	Proterra ZEBs in Fleet	BYD ZEBs in Fleet	Gillig ZEBs in Fleet
Antelope Valley Transit Authority	Lancaster	CA	81	24	-	57	-
Miami-Dade Transit	Miami	FL	61	-	61	-	-
Foothill Transit	West Covina	CA	54	35	19	-	-
Anaheim Resort Transportation	Anaheim	CA	46	-	-	46	-
LA County Metropolitan Transportation Authority	Los Angeles	CA	46	40	-	6	-
Alameda-Contra Costa Transit District	Oakland	CA	37	35	-	-	2
Regional Transportation District	Denver	CO	36	-	-	36	-
Southeastern Pennsylvania Transportation Authority	Philadelphia	PA	25	-	25	-	-
San Joaquin Regional Transit District	Stockton	CA	24	-	15	-	9
Charleston Area Regional Transportation Authority	Charleston	SC	23	7	16	-	-
Indianapolis Public Transportation Corporation	Indianapolis	IN	21	-	-	-	21
Regional Transportation Commission of Washoe County	Reno	NV	19	-	19	-	-
StarMetro - City of Tallahassee	Tallahassee	FL	19	-	19	-	-
Greensboro Transit Authority	Greensboro	NC	17	-	17	-	-
Rock Island County Metropolitan Mass Transit District	Rock Island	IL	17	-	17	-	-
City and County of Honolulu DOT	Honolulu	HI	17	-	-	-	17
Regional Transit Service	Rochester	NY	16	16	-	-	-
Transit Authority of River City	Louisville	KY	15	-	15	-	-
District Department of Transportation	Washington	DC	15	-	15	-	-
MTA New York City Transit	New York	NY	15	15	-	-	-
Delaware Transit Corporation	Dover	DE	14	-	10	-	4
San Diego Metropolitan Transit System	San Diego	CA	13	6	-	-	7
Capital Metropolitan Transportation Authority	Austin	TX	12	6	6	-	-
Prince George's County Department of Transportation	Largo	MD	12	-	12	-	-
Knoxville Area Transit	Knoxville	TN	12	12	-	-	-
Note: data as of January 2023		Total	667	196	266	145	60

Source: APTA, NBF

Figure 11: Installed base of ZEBs operated by transit agencies in the U.S.



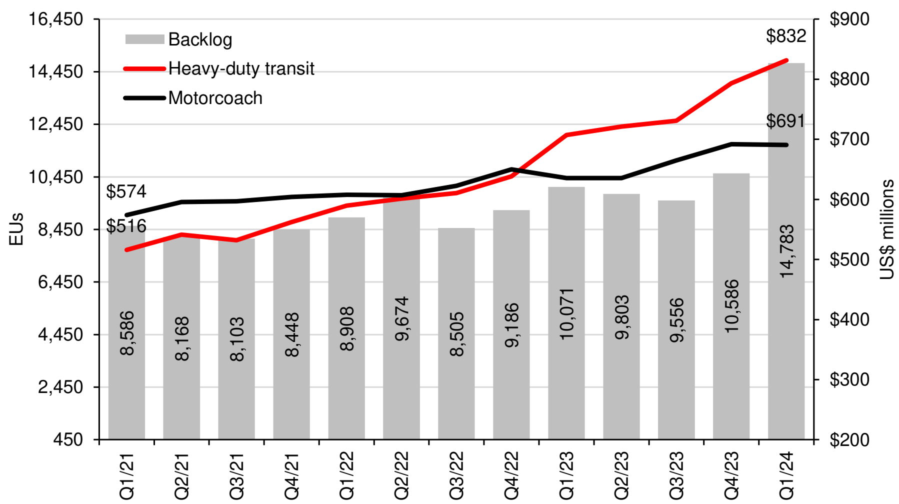
Source: APTA, NBF

A shift to ZEBs is positive for NFI's EBITDA

NFI has seen its average price in backlog increase significantly over the past few years with the average price for heavy-duty transit buses in NFI's backlog in Q1/24 ~61% higher than Q1/21. Part of the increase can be attributed to inflation and associated pricing increases, but the shift to more ZEBs is also a driver as prices for electric buses can be well over 50% higher than a comparable diesel bus.

While the percentage margin may be lower, we believe that the dollar margin on a ZEB could generate upwards of ~30% more EBITDA per bus than a comparable diesel bus. This is partly explained by the fact that NFI gains some incremental dollar margin by building the battery pack for the bus itself (with the electric motor and battery still coming from a third-party) compared to a diesel bus where the engine is purchased entirely from a third-party. A more complicated assembly process as well as the higher technology involved also contributes to the higher contribution on a ZEB. Given that ZEBs will continue to represent a growing portion of deliveries for NFI in the future, EBITDA margins may not return to the 12-13% that was seen prior to the pandemic, but the higher EBITDA/bus generated from ZEBs is supportive of the company's path to $400+ million in EBITDA.

Figure 12: NFI total backlog (EUs) and average price in backlog (US$ millions)



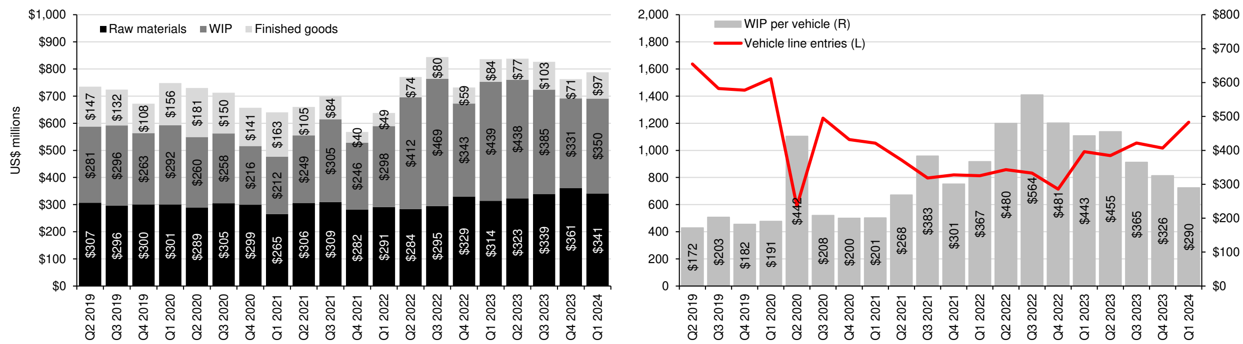
Source: NFI Group, NBF

Contracting changes will be a major improvement for NFI to support ZEB transition

Recall that NFI was a participant in an American Public Transit Association (APTA)-led task force which was created to address challenges facing the U.S. bus manufacturing industry. The task force, which is chaired by members from two of the largest transit agencies in the U.S., recommended pricing adjustments to existing contracts that were heavily impacted by inflation, deposits/milestone payments on future contracts, as well as the use of indexed pricing adjustments for future contracts to help mitigate the risk of swings in the prices of commodities and materials that go into each bus. In addition, the task force is also working to reduce the amount of customization that goes into individual buses, which would be helpful for OEMs in creating manufacturing efficiencies. NFI management has noted that some of these changes are already being implemented and the response from transit agencies has been generally positive.

These contracting changes, specifically the use of deposits and milestone payments, will help fund the working capital requirements for NFI, which have become especially burdensome given that more expensive zero-emission buses are becoming a larger portion of total new bus orders. As the graphs below show, NFI's inventory levels have increased significantly since 2019 (primarily due to increases in WIP and raw materials) despite vehicle line entries being lower. While supply chain disruptions over the past two years have undoubtedly played a role in the higher WIP, it could also be partly explained by having to invest more in the production of ZEBs as they make up a larger percentage of deliveries. Indeed, NFI's total WIP in Q1/24 was ~20% higher than in Q1/20, but looking at WIP on a per vehicle basis, Q1/24 was ~52% higher than Q1/20.

Figure 13: NFI Inventory Levels (Left) and Vehicle Line Entries/WIP per Vehicle (Right)



Source: NFI Group, NBF

NFI's U.K. ADL division facing more competition, but demand healthy

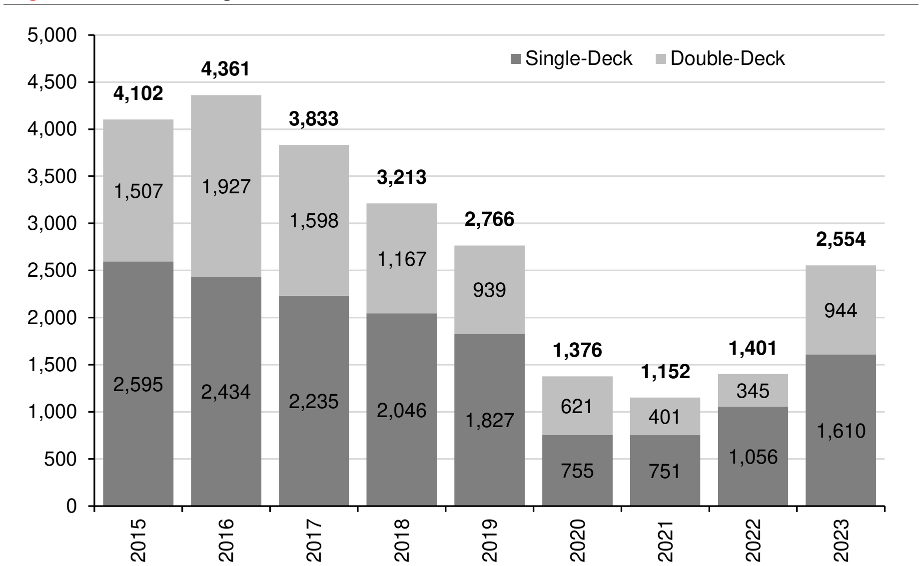
While end market demand and the competitive dynamics are clearly more favorable for NFI in North America, the company also has a presence outside of North America, with a leading position in the U.K. bus market through its Alexander Dennis subsidiary.

U.K. market dynamics favorable

NFI Group entered the U.K. market with the mid-2019 acquisition of Alexander Dennis (ADL), the largest bus manufacturer in the U.K. with a presence in several international markets. At the time of the acquisition, bus demand in the U.K. had fallen for three consecutive years but was poised for a rebound in 2020 until the pandemic de-railed the entire industry. Following three very depressed years of new bus deliveries, demand in the U.K. rebounded in 2023, although still below delivery levels seen prior to 2019 despite strong government funding support.

Given the under-investment in bus fleets from 2020-22, a demand up-cycle may be in its early stages as bus operators replace aging buses and invest in electrification. According to the most recent data from SMMT, in Q1/24, new bus and coach registrations were up 74.6% y/y with single-deck bus registrations up 33.6% y/y and double-decks up 70.0%. Registrations of Alexander Dennis-built buses were up 344% y/y to 240 units.

Figure 14: Annual Registrations of U.K. Buses & Coaches

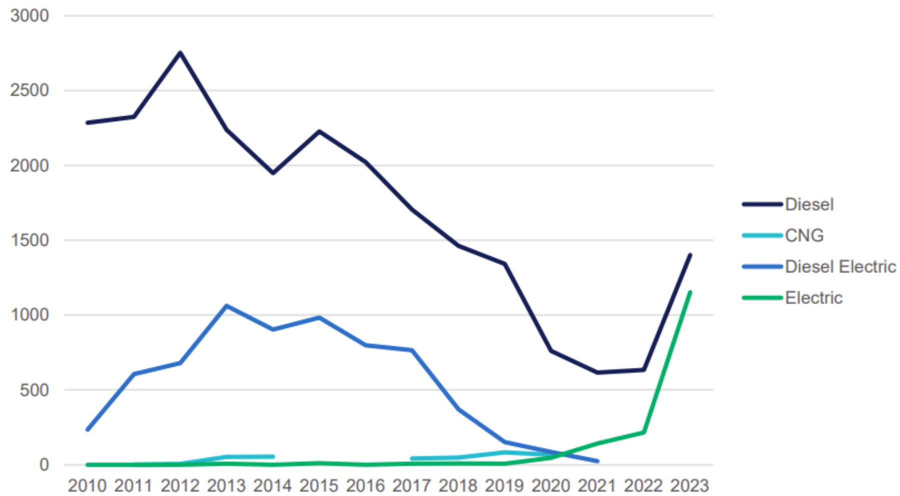


Source: SMMT, NBF

U.K. ahead of North America in ZEB transition

Although the competitive dynamics in North America may be more favorable for NFI, the U.K. market appears to be ahead in the adoption of zero-emission buses. As noted above, electric transit bus deliveries in North America represented just ~10% of industry-wide deliveries in 2023. As the graph below shows, ZEB registrations in the U.K. jumped up considerably in 2023 to over 1,100 buses, representing 45% of all bus registrations.

Figure 15: U.K. Bus Registrations by Fuel Type



Source: SMMT, NBF

NFI has had success in the U.K. in the EV market

As we detail in the table below, NFI's ADL subsidiary has had some solid success in winning new ZEB orders from various bus operators in the U.K. Until more recently, ADL addressed the U.K. ZEB market through a JV with Chinese EV giant, BYD, but ADL has more recently developed a new ZEB of its own 100% design. The new Enviro400EV double-deck bus (and associated other models) incorporates an electric drive system supplied by Voith and recent performance testing of the bus shows that it delivers a 10% efficiency improvement over equivalent competitor models, according to ADL. From a financial perspective, developing and selling its own entirely proprietary bus model should be positive as the economics will no longer have to be shared with JV partner BYD. Notably, ADL was recently awarded its largest single order of ZEBs ever with U.K. operator Stagecoach placing a firm order for 244 of the new bus models (including 180 Enviro400EV double-decks along with 54 Enviro200EV single-decks and 10 Enviro100EV small buses).

Figure 16: NFI/ADL recent ZEB contract wins in the U.K.

Date	Customer	City/Country	Firm Order	Options	Total
03-Mar-21	First Bus	Glasgow	22	0	22
18-Mar-21	First Bus	Leeds	5	0	5
30-Mar-21	Stagecoach	Aberdeen, Perth, Kilmarnock	46	0	46
31-Mar-21	First Bus	Glasgow	126	0	126
16-Jun-21	RATP Dev London	London	195	0	195
19-Jul-21	NTA Ireland	Ireland	45	155	200
27-Aug-21	Liverpool City Region Combined Authority	Liverpool	20	0	20
10-Dec-21	Xplore Dundee	Larbert, Scotland	12	0	12
17-Feb-22	National Express Coventry ETaaS	Scotland	130	0	130
22-Sep-22	Transport for Greater Manchester	Manchester	50	0	50
23-Dec-22	Transport for Greater Manchester	Manchester	50	0	50
31-Jan-23	Stagecoach	Oxfordshire	55	0	55
13-Apr-23	National Express	West Midlands	170	0	170
06-Jul-23	Go-Ahead London	London	141	0	141
24-Aug-23	Transdev Blazefield	North Yorkshire	19	0	19
30-Nov-23	Stagecoach	Scotland	20	0	20
11-Jun-24	Reading Buses	England	24	0	24
25-Jun-24	Stagecoach	England	244	0	244
		Total	**1,374**	**155**	**1,529**

Source: NFI Group, NBF

UK market getting more competitive?

Whereas the competitive dynamics for NFI in the U.S. have improved, the U.K. market appears to be getting more competitive as the barriers to entry are not as high as in the U.S. For example, the combination of Buy America requirements as well as a ban on federal transit funding for manufacturers linked to China effectively eliminates international competitors from importing buses into the U.S. market and competing with NFI, which is not the case in the U.K. Northern Ireland-based bus manufacturer, Wrightbus (which filed for bankruptcy in 2019 resulting in the company being purchased by British businessman, Jo Bamford) has resurrected itself over the past few years and is having success in winning orders from large transit bus operators throughout the U.K. Since the beginning of 2022, Wrightbus has won contracts totaling almost 900 buses. Volvo has also been successful in winning U.K. contracts with orders for almost 300 buses since the start of 2022.

But the bigger competitive threat in our view may come from Chinese bus OEMs. In late May, BYD launched a new double-deck EV bus model specifically designed for the U.K. market, effectively replacing its prior path to addressing the market via its JV with ADL. The first BYD bus model being introduced is aimed at the London market, where press reports suggest it could be the preferred model to replace older Wrightbus-built hybrid buses that are being phased out. The Go-Ahead group, which is one of the largest bus operators in London, will reportedly announce an initial order with the price/bus at £400,000, which is £100,000 cheaper than other U.K. competitors' buses, according to press articles. The buses will be built in China and shipped to the U.K.

Chinese manufacturer, Yutong (who distributes buses in the U.K. through Pelican Bus and Coach), has also had some recent success in winning U.K. contracts as it is seeing more of its electric buses being trialed by operators in the region. Indeed, National Express, which is one of the largest coach operators in the U.K., announced in March that it would be testing Yutong's new electric coach bus over a four-week trial period while Stagecoach recently announced an order for 158 of Yutong's electric buses, making it the largest operator of Yutong electric vehicles in the U.K.

Figure 17: Recent competitor bus contract wins in the U.K.

Date	Bus OEM	Customer	City/Country	Firm Order
12-May-22	Yutong	McGill's Buses	Scotland	41
22-Jun-22	Wrightbus	National Transport Authority	Ireland	120
31-Aug-22	Wrightbus	First Bus	England	193
27-Oct-22	Wrightbus	Translink	Ireland	100
29-Nov-22	Wrightbus	Metroline	London/Hertfordshire	39
29-Nov-22	Volvo	Metroline	London	48
31-Jan-23	Wrightbus	Go-Ahead	Oxford	104
21-Mar-23	Wrightbus	First Bus	Leicester	18
26-Apr-23	Wrightbus	Stagecoach	London	48
18-May-23	Volvo	Stagecoach	Stockport & London	189
17-Aug-23	Mercedes-Benz	The Harrogate Bus Company	North Yorkshire	20
31-Aug-23	Wrightbus	First Bus	York	53
28-Sep-23	Volvo	Lothian Buses	Edinburgh	50
12-Oct-23	Mellor	Stagecoach	Manchester	4
12-Oct-23	Mellor	First Group	Manchester	17
01-Nov-23	Wrightbus	Arriva	London	34
17-Nov-23	Wrightbus	Abellio	London	80
08-Feb-24	Wrightbus	Arriva	London	87
08-Feb-24	Yutong	Nottingham City Transport	Nottingham	48
21-Feb-24	Wrightbus	Stagecoach	London	16
26-Jun-24	Yutong	Stagecoach	England	158

Totals	
Mellor	21
Mercedes-Benz	20
Volvo	287
Wrightbus	892
Yutong	247
Total	**1,467**

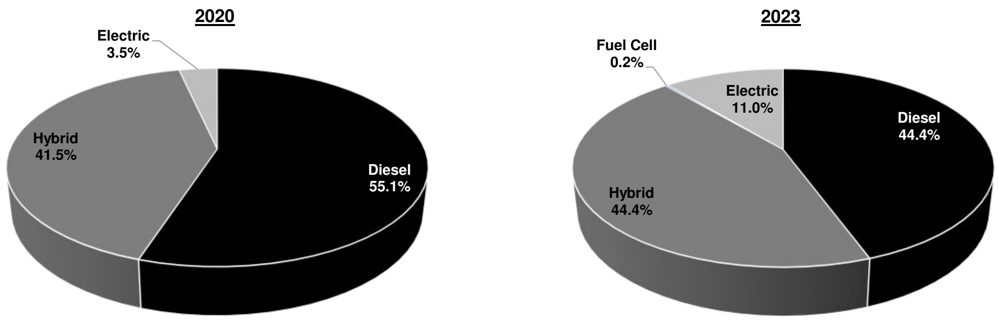
Source: SMMT, Company Websites, NBF

ADL maintains strong market position

Despite increased competition, ADL has maintained a strong market position in the U.K. with an estimated market share of ~50% followed by Wrightbus, Volvo, and Yutong. Its incumbency with key operators and the fact that its manufacturing presence is in the U.K. should remain important advantages in our view.

ADL's market position in the U.K. is perhaps best illustrated by examining the bus fleet in operation in the largest transit market, London. According to Transport for London (TfL), as of March 31st, 2023, there were 8,643 buses operating in the city, 44.4% of which were diesel, another 44.4% were hybrid, and 11.0% were electric. While still a relatively small piece of the market, the 11.0% share for electric buses is up considerably from just 3.5% in 2020.

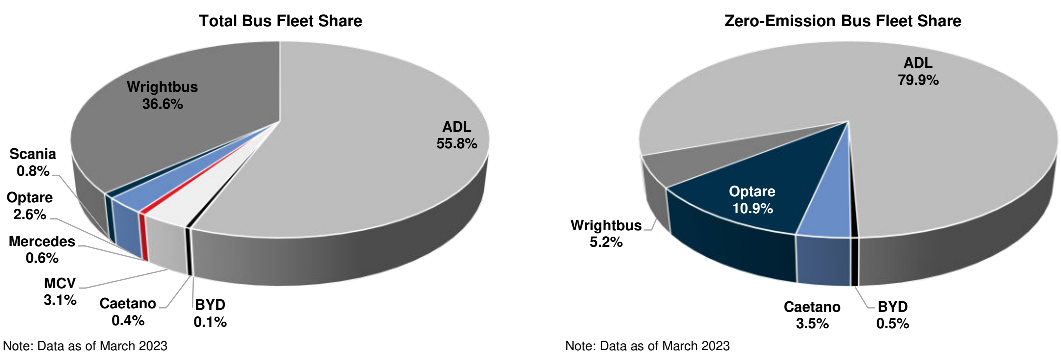
Figure 18: Transport for London (TfL) – London bus market split by engine type



Source: Transport for London (TfL), NBF

Despite competition in the U.K. increasing the past couple of years, ADL has done well in maintaining its leading market position in London, representing 55.8% of transit buses in 2023 with Wrightbus the second largest at 36.6% of buses. Looking at zero-emission buses only (970 buses in 2023), ADL's market position is even more dominant at 79.9% of the ZEB fleet followed by Optare at 10.9%, Wrightbus at 5.2%, Caetano at 3.5% and BYD representing the remaining 0.5%.

Figure 19: Transport for London (TfL) – London bus and zero-emission bus market split by manufacturer



Source: Transport for London (TfL), NBF

Visibility on a multi-year improvement in EBITDA and cash flows

Our Outperform rating on NFI is underpinned by several factors:

- A record backlog that we believe will support bus delivery growth through 2026.
- Material tailwinds from better pricing in backlog (+19% y/y) and a progressive shift to ZEB deliveries that will drive higher margins.
- More favorable competitive conditions in the U.S. market that we think can support share gains for NFI as well as supportive pricing and contract conditions.
- Changes in transit agency contracting should ease working capital intensity and boost cash flow.
- Higher EBITDA and cash flows will bring leverage down to a more comfortable 2.5x (including convertible debentures) by the end of 2025.

To illustrate the potential EBITDA improvement, below we have provided a table to show the walk from 2023 EBITDA of $69 million to the theoretical 2026 level. If we assume bus deliveries can ramp from ~4,000 in 2023 to 6,000 in 2026 (a run rate similar to what NFI did in 2019), and the EBITDA/EU improves from a loss in 2023 to positive $57K/EU in 2026 (driven by the 19% increase y/y in average selling price embedded in NFI's backlog partially offset by assumed cost inflation), we can derive a 2026 EBITDA of $443 million (assuming flat aftermarket and higher corporate costs). We note that NFI achieved $56K in EBITDA/EU in 2018 but should have some mix tailwinds from a higher proportion of ZEBs.

Figure 20: EBITDA improvement walk 2023 to 2026

Bus deliveries (2023)	4,001
Bus mfg revenue ($Ms)	$2,088.6
Revenue per bus ($000s)	$ 522.0
EBITDA/bus ($000s)	$ (10.5)
Backlog ASP increase	19%
2026 revenue per bus ($000s)	$ 621.2
Incremental revenue/bus ($000s)	$ 99.2
Cost inflation	6%
Net EBITDA/bus increase ($000s)	$ 67.9
2026 EBITDA/bus ($000s)	**$ 57.3**
Mfg EBITDA on 2023 deliveries ($Ms)	$ 229.4
Baseline Aftermarket EBITDA ($Ms)	$ 120.3
Corporate costs 2023 ($Ms)	$ (8.9)
Total re-baselined EBITDA ($Ms)	**$ 340.8**
Bus deliveries 2026	6,000
EBITDA/bus ($000s)	$ 57.3
2026 mfg EBITDA ($Ms)	$ 344.0
Flat aftermarket EBITDA ($Ms)	$ 120.3
Corporate costs ($Ms)	$ (21.0)
Total 2026 EBITDA ($Ms)	**$ 443.3**

Source: NFI Group, NBF estimates

Our forecast only runs out to 2025 for which we forecast EBITDA of $361 million (2025 is also the basis for our target). However, if NFI can generate $443 million in EBITDA in 2026, based on our assumptions around cash flows and debt reduction that year, we can derive a future target for the company of ~C$27.00/share based on a reasonable 7.0x EV/EBITDA multiple. Thus, if the company can execute on its production ramp over the next several years, we still see significant potential upside on the stock from current levels.

We previously valued the stock by applying a 7.0x EV/EBITDA multiple to our 2025 forecast but given our increased confidence on improving financial performance over the next several years, we are increasing our valuation multiple to 7.5x, which results in a new target of $21.00, up from $19.00 previously. Near-term results for NFI will still reflect a relatively low production rate and lower average prices on deliveries, but we see a more positive inflection beginning in H2/24.

Figure 21: NFI Group summary forecast

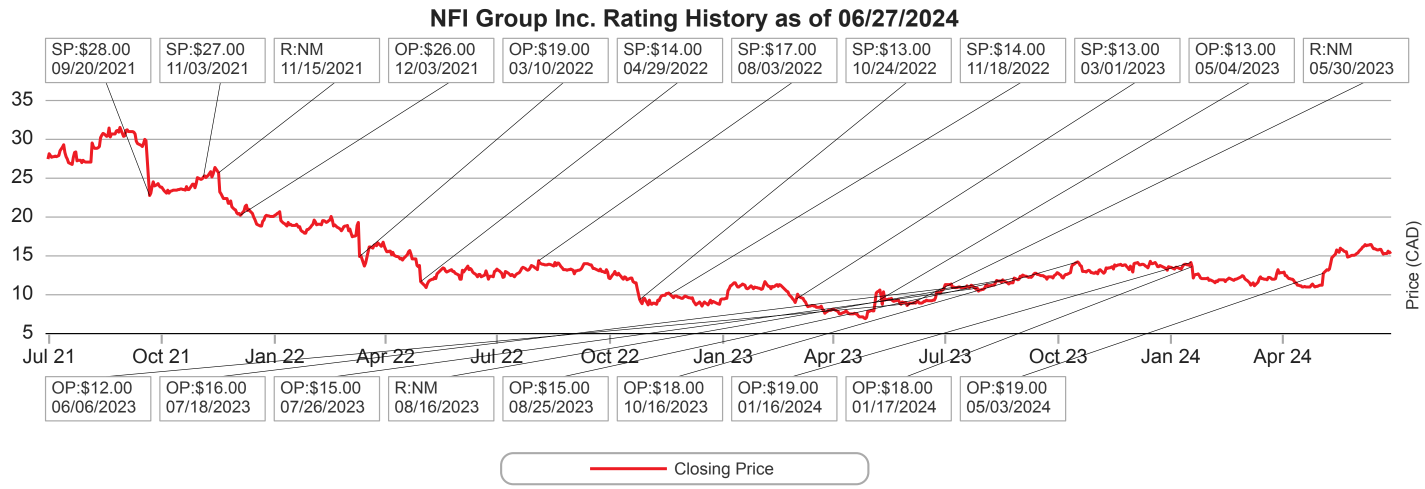
FY End Dec. 31 ($US Millions)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Manufacturing											
Revenues	**1,216.7**	**1,890.6**	**2,012.7**	**2,141.9**	**2,472.3**	**2,017.7**	**1,869.7**	**1,568.7**	**2,130.2**	**2,773.0**	**3,402.2**
Y/Y change	*7.5%*	*55.4%*	*6.5%*	*6.4%*	*15.4%*	*-18.4%*	*-7.3%*	*-16.1%*	*35.8%*	*30.2%*	*22.7%*
EBITDA (adj.)	**90.0**	**210.1**	**246.1**	**241.7**	**256.1**	**102.0**	**51.7**	**(149.2)**	**(42.1)**	**145.1**	**258.6**
EBITDA %	*7.4%*	*11.1%*	*12.2%*	*11.3%*	*10.4%*	*5.1%*	*2.8%*	*-9.5%*	*-2.0%*	*5.2%*	*7.6%*
Deliveries (EUs)*	2,480	3,511	3,828	4,313	5,315	4,371	3,783	3,039	4,001	5,012	5,620
Aftermarket:											
Revenues	**322.2**	**383.6**	**369.2**	**377.1**	**417.4**	**401.4**	**474.0**	**485.2**	**555.0**	**596.6**	**600.9**
Y/Y change	*1.0%*	*19.1%*	*-3.8%*	*2.1%*	*10.7%*	*-3.8%*	*18.1%*	*2.4%*	*14.4%*	*7.5%*	*0.7%*
EBITDA (adj.)	**61.5**	**79.0**	**71.9**	**73.7**	**74.5**	**66.7**	**98.8**	**86.2**	**120.3**	**133.6**	**123.1**
EBITDA %	*19.1%*	*20.6%*	*19.5%*	*19.5%*	*17.9%*	*16.6%*	*20.8%*	*17.8%*	*21.7%*	*22.4%*	*20.5%*
Total revenues	**1,538.9**	**2,274.2**	**2,381.9**	**2,519.0**	**2,889.7**	**2,419.2**	**2,343.7**	**2,053.9**	**2,685.2**	**3,369.6**	**4,003.0**
Total EBITDA (adj.)	**151.5**	**289.1**	**318.0**	**315.4**	**322.1**	**157.7**	**164.2**	**(59.1)**	**69.3**	**260.4**	**360.7**
Margin %	*9.8%*	*12.7%*	*13.4%*	*12.5%*	*11.1%*	*6.5%*	*7.0%*	*-2.9%*	*2.6%*	*7.7%*	*9.0%*
EBIT	**90.0**	**214.8**	**259.6**	**238.3**	**173.1**	**(72.2)**	**34.1**	**(288.5)**	**(16.8)**	**173.3**	**265.3**
Margin %	*5.8%*	*9.4%*	*10.9%*	*9.5%*	*6.0%*	*-3.0%*	*1.5%*	*-14.0%*	*-0.6%*	*5.1%*	*6.6%*
EBT	**75.7**	**193.8**	**241.6**	**210.7**	**99.7**	**(156.1)**	**(4.9)**	**(325.2)**	**(169.2)**	**46.4**	**152.7**
Margin %	*4.9%*	*8.5%*	*10.1%*	*8.4%*	*3.4%*	*-6.5%*	*-0.2%*	*-15.8%*	*-6.3%*	*1.4%*	*3.8%*
Income tax expense (recovery)	21.8	68.9	50.3	50.7	42.0	1.6	9.6	(47.4)	(32.9)	13.1	47.3
% tax rate	*28.8%*	*35.6%*	*20.8%*	*24.1%*	*42.1%*	*-1.1%*	*-193.9%*	*14.6%*	*19.4%*	*28.3%*	*31.0%*
Net earnings	**53.9**	**124.9**	**191.3**	**159.9**	**57.7**	**(157.7)**	**(14.5)**	**(277.8)**	**(136.3)**	**33.3**	**105.4**
Margin %	*3.5%*	*5.5%*	*8.0%*	*6.3%*	*2.0%*	*-6.5%*	*-0.6%*	*-13.5%*	*-5.1%*	*1.0%*	*2.6%*
EPS (adjusted)	**$0.97**	**$2.08**	**$3.03**	**$2.66**	**$1.64**	**($0.75)**	**($0.17)**	**($2.09)**	**($1.27)**	**$0.23**	**$0.89**
Free Cash Flow	**33.8**	**121.5**	**115.4**	**99.2**	**48.7**	**24.2**	**66.9**	**(296.3)**	**(120.7)**	**26.5**	**133.5**

*Includes Alexander Dennis Limited (acquired on May 28, 2019)

Source: NBF

Disclosures

PRICE, RATING AND TARGET HISTORY: I = Initiation, OP = Outperform, SP = Sector Perform, UP = Underperform, UR = Under Review, R = Restricted; T = Tender (Source: Factset, NBF)



RISKS:

NFI

Availability of government funding: Demand for transit buses is primarily driven by the availability of government funding, which can fluctuate based on government finances and the political landscape.

New competition: NFI may see enhanced competition, particularly in the ZEB market which has additional competitors.

Motor coach market more economically sensitive: NFI's motor coach segment is more economically sensitive and therefore subject to fluctuations in demand.

ADDITIONAL COMPANY RELATED DISCLOSURES

NFI Group Inc. 2, 3, 4, 5, 7

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2 National Bank Financial Inc. has acted as an underwriter with respect to this issuer within the past 12 months.
3 National Bank Financial Inc. has provided investment banking services for this issuer within the past 12 months.
4 National Bank Financial Inc. or an affiliate has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.
5 National Bank Financial Inc. or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.
6 National Bank Financial Inc. or an affiliate has a non-investment banking services related relationship during the past 12 months.
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	Outperform	Sector Perform	Underperform
Coverage Universe Ratings Distribution	65%	31%	1%
% of Rating with Investment Banking Relationship	62%	60%	60%

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