Blue Bird Corporation

(Nasdaq: BLBD)

Fiscal 2020
First Quarter Results

Earnings Conference Call

February 12, 2020



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BUILT TO TAKE ON TOMORROW.

Agenda

- **Introductions & Forward-Looking Statements**
  - **Mark Benfield – Executive Director, Profitability & Investor Relations**
- **Business Overview**
  - **Phil Horlock – President & CEO**
- **Financial Results**
  - **Phil Tighe – CFO**
- **Outlook and Guidance**
  - **Phil Horlock – President & CEO**
- **Q&A**
  - **Group**



This presentation includes forward-looking statements, including statements regarding full-year guidance and seasonality, that are subject to risks that could cause actual results to be materially different. Those risks include, among others, matters we have noted in our latest earnings release and filings with the SEC. Blue Bird disclaims any obligation to update information in this presentation. Additional information regarding forward-looking statements and the use of non-GAAP financial measures is included in the Appendix to this presentation.



Phil Horlock
President & CEO

BUSINESS OVERVIEW

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Overview

- Achieved second highest 1Q profit in more than 10 years
  - Adjusted EBITDA of $8.0M, $0.8M above last year
  - 1,460 buses sold, down 140 units from last year
  - Total Net Sales of $153.2M, 1% lower than last year
  - Average-bus selling price was 6% higher than last year and parts revenue was up over 17%
  - Adjusted Free Cash Flow was $90.8M negative, compared with $56.9M negative last year
  - Adjusted Net Income of $2.0M and Adjusted Diluted EPS of 7 cents, up $0.8M and 2 cents, respectively, from last year

- Business fundamentals are strong
  - School bus industry projected to be stable at about 34,000 school buses
  - Alternative-fuel powered buses represented a record 1Q sales mix of 39%, up 5pts.
  - Annual pricing of 2%, taken in late FY2019 to offset the ongoing impact of economics, is holding, in line with expectations
  - Transformational Initiatives to improve cost structure are on track; significant cost reductions being achieved
  - Fourth consecutive quarter of Gross Margin improvement versus same period a year ago

- Reaffirming FY2020 Guidance, with mid-point of range for Adjusted EBITDA at 13% above FY2019

- On track to achieve Full Year Adjusted EBITDA margin run rate of 10%+ by end of FY2020

Grew profits, increased alternative-fuel mix and continued major transformational initiatives. Guidance for FY2020 reaffirmed

Significant Operating Achievements

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Quality ↑
Costs ↓
Capacity ↑

Gross Margin up 1.6 pts. ↑

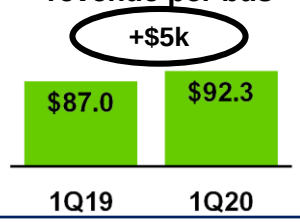
Transformational initiatives on track

Robotic Paint Facility



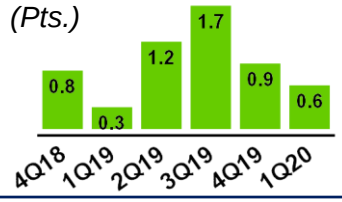
Fully operational, at full line rate and on plan

Significant gains in revenue per bus



Bus Rev./Unit is up 6% from last year

Year-Over-Year Increase in Adj. EBITDA Margin



Grew Adj. EBITDA Margin six consecutive quarters

Alternative Fuels Mix is

46%

of total unit sales and order backlog compared with 42% last year[1]



Alt. fuel-powered bus unit sales and order backlog up 5% from last year[1]

Strong interest in all-electric buses



Delivered 24 buses in 1Q FY2020; 90+ units sold and in backlog

Profit Growth Outlook

- Net Sales: $1,020- $1,050M
- Adj. EBITDA: $90 - $95M
- Adj. FCF: $30 - $35M

Reaffirming FY2020 Full-Year Guidance

Continuing to make advances in multiple areas; focused on product quality, pricing, cost and alternative fuels

[1]As of 2/10

1Q Financial Results

Bus Sales

$134.8M

Down $4.4M

Total Net Sales

$153.2M

Down $1.7M

Parts Sales

$18.4M

Up $2.7M

Adj. EBITDA[1]

$8.0M

Up $0.8M

Higher profit despite lower bus sales; strong growth in Parts sales

[1]See appendix for additional detail regarding Adjusted EBITDA

Alternative-Fuel Leadership



FY2020 YTD Highlights

- Sold units and backlog are 5% above prior year
- Alt-Fuel sales mix at 46%, 4 pts above prior year
- 111 new Alt-Fuel customers added
- 90+ electric buses sold and in backlog

Opportunities

- VW mitigation funds
  - 52 states/territories have finalized mitigation plans
  - Approximately $600M has been carved out for school buses; estimated $175M spent to date
  - Only major OEM with all-electric and ultra-low NOx school buses available
- Electric bus interest remains strong
- Less than 15% of customers have purchased alternative-fuel powered buses

Blue Bird is the only OEM presently producing Ultra-Low NOx Propane, CNG and electric buses; uniquely placed to take advantage of VW mitigation funds

[1]As of 2/10

Transformational Initiatives Drive Down Cost

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FY2018

Phase 1

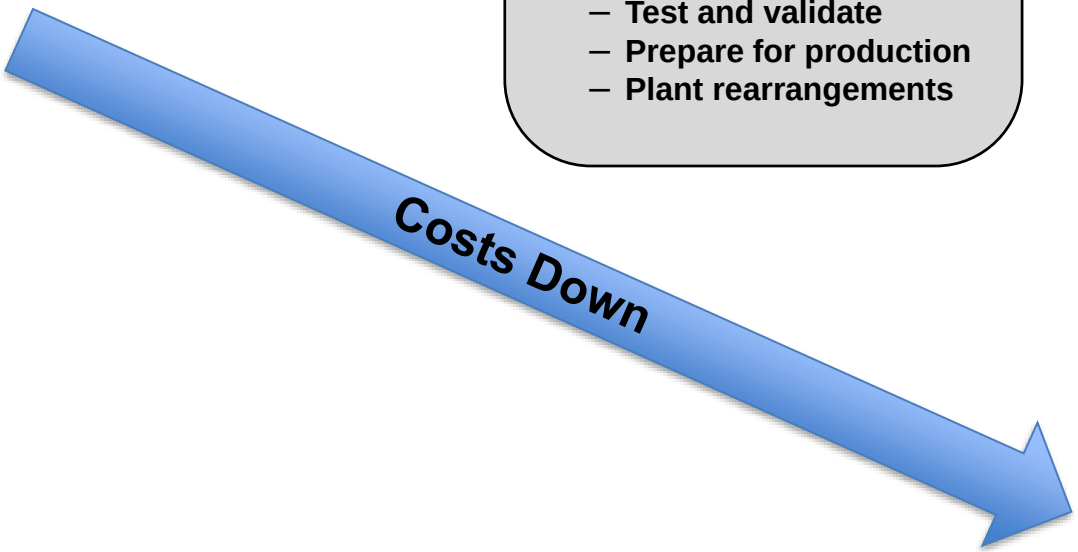
Purchased Material
- Commercial
- Sourcing

FY2019

Phase 2

Purchased Material
- Commercial
- Sourcing
- Initial design

Build and Launch
New Paint Facility
- Test and validate
- Prepare for production
- Plant rearrangements



FY2020+

Phase 3

Purchased Material
- Commercial
- Sourcing
- Design

New Paint Facility
Fully Operational
- High first-time pass rate
- Greater capacity
- Less paint usage
- Lower labor cost
- Lower warranty expense

Plant Productivity
- Optimize time per station
- Labor efficiencies
- Break bottlenecks
- Design-for-manufacturing
- Improve quality/rework
- Material setup to line

Material & operating cost initiatives are ongoing; new paint facility fully operational; other major productivity initiatives progressing to full implementation by FY2020+



Phil Tighe

CFO

FINANCIAL RESULTS & OUTLOOK

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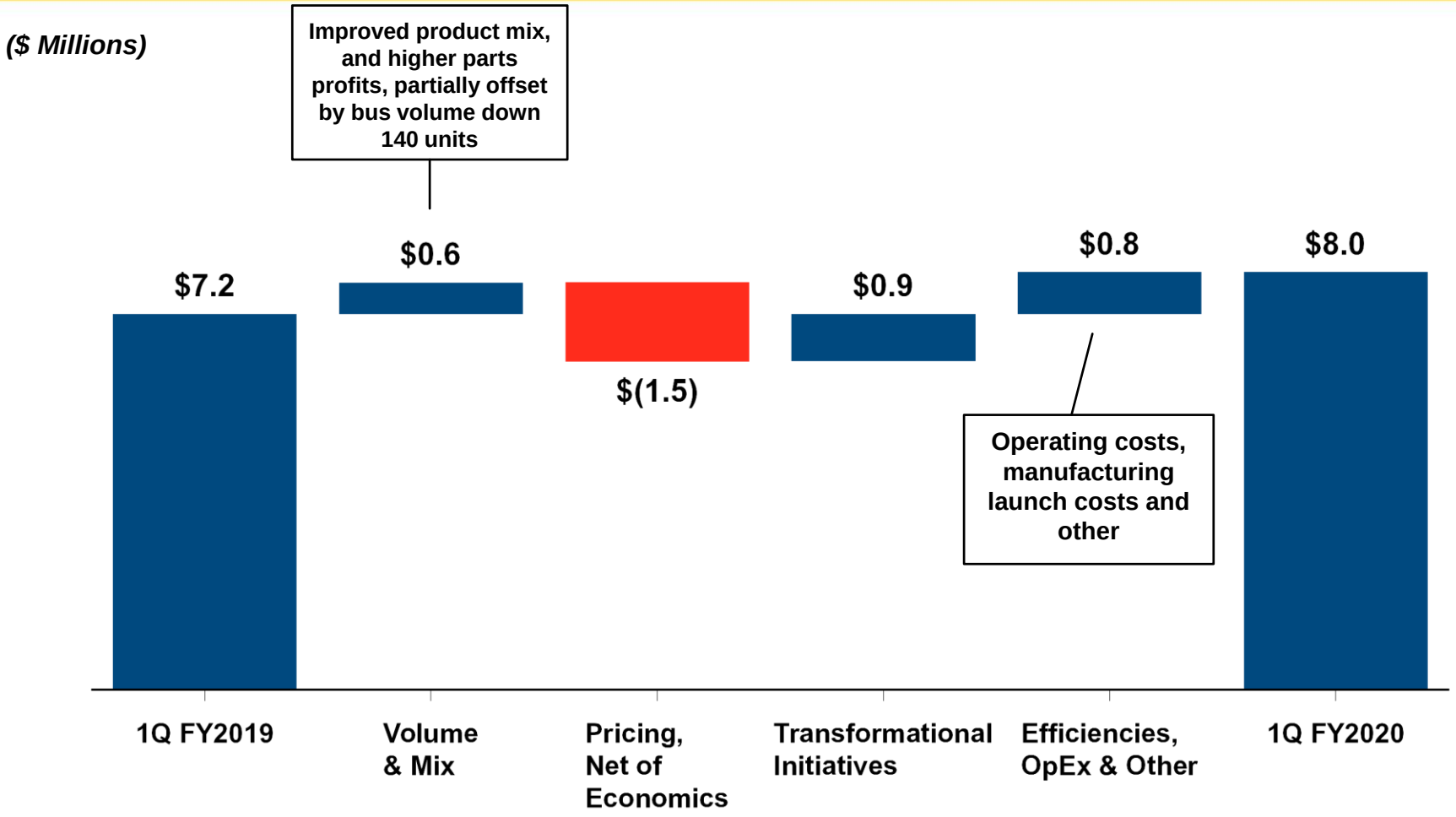
1Q Results – Summary

($ Millions unless noted)	1Q FY2020	1Q FY2019	B/(W)
Unit Volume	1,460	1,600	(140)
Net Revenue	$153.2	$154.9	$(1.7)
Bus Rev./Unit ($000's)	*$92.3*	*$87.0*	*$5.3*
Gross Margin	13.9%	12.3%	160 bps.
Net Loss	$(0.4)	$(1.2)	$0.8
Adj. Net Income[1]	$2.0	$1.3	$0.8
Adj. EBITDA[1]	$8.0	$7.2	$0.8
Adj. EBITDA Margin	5.2%	4.7%	58 bps.
Diluted EPS ($'s)	$(0.02)	$(0.05)	$0.03
Adj. Diluted EPS[1] ($'s)	$0.07	$0.05	$0.02
Cash	$7.7	$18.8	$(11.1)
Debt	$215.9	$209.9	$(6.0)

Margins, profits and EPS were all better than prior year, despite lower volume

[1] See appendix for additional detail regarding non-GAAP measures

1Q FY2019 to FY2020 Adj. EBITDA Walk



Product mix, pricing and cost reductions through Transformational Initiatives drive higher profits despite slightly lower volume and higher economics

[1]See appendix for additional detail regarding Adjusted EBITDA

FY2020 Free Cash Flow

($ Millions)	1Q FY2020	1Q FY2019
Adjusted EBITDA	$ 8.0	$ 7.2
Cash Paid for Interest (Net)	(2.2)	(2.4)
Trade Working Capital[1]	(80.2)	(41.4)
CAPEX	(9.3)	(10.8)
Cash Taxes	—	—
Other[2]	(7.1)	(9.5)
Adjusted Free Cash Flow	$ (90.8)	$ (56.9)
Operational Transformation Initiatives/Other	(1.1)	(0.2)
Product Redesign	(3.4)	(1.8)
Free Cash Flow	$ (95.3)	$ (59.0)

[1] Inventories, accounts receivable and accounts payable

[2] Accrued expenses and other receivables

FY2020 Adj. Free Cash Flow was $33.9M lower than FY2019 primarily reflecting higher raw inventory levels, partially offset by higher Adj. EBITDA

Improving Net Debt, Leverage & Liquidity

($ Millions)	As of January 4, 2020
Debt	**$215.9**
Cash	**7.7**
Net Debt	**$208.2**
Net Debt / Adjusted EBITDA	**2.5x**
Net Leverage Ratio **Compared with minimum bank Net Leverage Ratio covenant of 3.75x**	**2.5x**
Liquidity[1]	**$65.8**

[1] Liquidity is defined as cash and cash equivalents plus availability on revolving line of credit

Net Leverage Ratio remains well below threshold



Phil Horlock
President & CEO

Outlook & Guidance

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Outlook for FY2020 - Following Our Plan

- **School bus industry outlook at about 34k, the same level as prior two years, supported by continued growth in property taxes, high mix of buses that are more than 15 years old and VW settlement and other funding to replace aging diesel buses**

- **In FY2020, Blue Bird is continuing its Plan to drive overall profit and margin growth through three key initiatives:**
  - **Annual bus pricing to fully cover economics and product and feature upgrades**
  - **Cost reductions through our Transformational Initiatives, with material and operating cost reduction processes now institutionalized, new paint facility launched, and design and plant productivity improvements ahead to reduce total vehicle costs**
  - **Increased mix of alternative-fuel powered school buses at superior margins**

- **Committed to our Plan which drives achievement of ongoing EBITDA margin of 10%+**



Reaffirming FY2020 Full Year Guidance

$ Millions	FY2019 Actual	FY2020 Guidance	FY2020G B/(W) FY2019
Net Sales	$1,018	$1,020 - $1,050	$2 - $32
Adj. EBITDA[1]	$82	$90-95	$8 - $13
Adj. Free Cash Flow[1]	$36	$30 - $35	$(6) - $(1)

FY2020 Guidance mid-point for Adjusted EBITDA 13% higher than FY2019, driven by improvements in net selling price and major cost reduction initiatives.
Actions in place support achieving 10%+ EBITDA margin objective by FY2020/2021

[1]See appendix for additional detail regarding non GAAP measures



Q&A

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Appendix

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Adj. EBITDA Reconciliation

Reconciliation of Net Loss to Adjusted EBITDA

(in thousands of dollars)	Three Months Ended January 4, 2020	Three Months Ended December 29, 2019
Net loss	$ (403)	$ (1,220)
Adjustments:		
Discontinued operations income	—	—
Interest expense, net (1)	1,993	2,968
Income tax benefit	(326)	(236)
Depreciation, amortization, and disposals (2)	3,538	2,407
Operational transformation initiatives	1,114	244
Foreign currency hedges	—	109
Share-based compensation	1,093	852
Product redesign initiatives	1,010	2,149
Other	6	(57)
Adjusted EBITDA	$ 8,025	$ 7,216
Adjusted EBITDA margin (percentage of net sales)	5.2%	4.7%

(1) Includes $0.1 million for both fiscal periods, representing interest expense on lease liabilities, which are a component of lease expense and presented as a single operating expense in selling, general and administrative expenses on our Condensed Consolidated Statements of Operations.
(2) Includes $0.2 million for both fiscal periods, representing amortization charges on right-to-use lease assets, which are a component of lease expense and presented as a single operating expense in selling, general and administrative expenses on our Condensed Consolidated Statements of Operations.

Free Cash Flow Reconciliation

Reconciliation of Free Cash Flow to Adjusted Free Cash Flow

(in thousands of dollars)	Three Months Ended January 4, 2020	Three Months Ended December 29, 2019
Net cash provided by operating activities	$ (85,988)	$ (48,208)
Cash paid for fixed assets	(9,287)	(10,787)
Free cash flow	$ (95,275)	$ (58,995)
Cash paid for product redesign initiatives	(3,380)	(1,846)
Cash paid for operational transformation initiatives	(1,114)	(244)
Adjusted free cash flow	(90,781)	(56,905)

Adjusted EPS Reconciliation

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Reconciliation of Net Loss to Adjusted Net Income

(in thousands of dollars)	Three Months Ended January 4, 2020	Three Months Ended December 29, 2019
Net loss	$ (403)	$ (1,220)
Adjustments, net of tax benefit or expense (1)		
Operational transformation initiatives	836	183
Product redesign initiatives	758	1,612
Foreign currency hedges	—	82
Share-based compensation	820	639
Discontinued operations income	—	—
Other	5	(43)
Adjusted net income, non-GAAP	$ 2,014	$ 1,253

(1) Amounts are net of estimated statutory tax rates of 25%.

Reconciliation of Diluted EPS to Adjusted Diluted EPS

	Three Months Ended January 4, 2020	Three Months Ended December 29, 2019
Diluted loss per share	$ (0.02)	$ (0.05)
One-time charge adjustments, net of tax benefit or expense	0.09	0.10
Adjusted diluted earnings per share, non-GAAP	$ 0.07	$ 0.05
Weighted average dilutive shares outstanding (1)	26,936,709	27,048,765

(1) Weighted average dilutive shares outstanding for the three months ended January 4, 2020 and December 29, 2019 excluded 455,268 and 745,900 shares, respectively, as their effect would be anti-dilutive, but were included in the adjusted diluted earnings per share, non-GAAP calculation as their effect was dilutive.

Important Disclaimers

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Forward Looking Statements

This presentation includes forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements relate to expectations for future financial performance, business strategies or expectations for our business. Specifically, forward-looking statements include statements regarding guidance, seasonality, product mix and gross profits and may include statements relating to:

- **Inherent limitations of internal controls impacting financial statements**
- **Growth opportunities**
- **Future profitability**
- **Ability to expand market share**
- **Customer demand for certain products**
- **Economic conditions (including tariffs) that could affect fuel costs, commodity costs, industry size and financial conditions of our dealers and suppliers**
- **Labor or other constraints on the Company's ability to maintain a competitive cost structure**
- **Volatility in the tax base and other funding sources that support the purchase of buses by our end customers**
- **Lower or higher than anticipated market acceptance for our products**
- **Other statements preceded by, followed by or that include the words "estimate," "plan," "project," "forecast," "intend," "expect," "anticipate," "believe," "seek," "target" or similar expressions**

These forward-looking statements are based on information available as of the date of this presentation, and current expectations, forecasts and assumptions, and involve a number of judgments, risks and uncertainties. Accordingly, forward-looking statements should not be relied upon as representing our views as of any subsequent date, and we do not undertake any obligation to update forward-looking statements to reflect events or circumstances after the date they were made, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws. The factors described above, as well as risk factors described in reports filed with the SEC by Blue Bird Corporation (available at www.sec.gov), could cause our actual results to differ materially from estimates or expectations reflected in such forward-looking statements.

Forward-looking statements in this document also may include, but are not limited to, statements regarding the pricing of the share repurchase, the potential tender offer by Blue Bird for shares of its common stock, and the benefits and timing of any potential tender offer. Many risks, contingencies and uncertainties could cause actual results to differ materially from Blue Bird's forward-looking statements. Among these factors are the risk that Blue Bird may decide not to commence the tender offer, and that if Blue Bird does commence a tender offer, that the offer may not be completed.

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Non-GAAP Financial Measures

This presentation may include the following non-GAAP financial measures: “Adjusted EBITDA,” "Adjusted EBITDA Margin," “Adjusted Net Income,” “Adjusted Diluted Earnings per Share,” “Free Cash Flow” and “Adjusted Free Cash Flow.”

Adjusted EBITDA is defined as net income prior to discontinued operations income or loss, interest income, interest expense including the component of lease expense (which is presented as a single operating expense in selling, general and administrative expenses in our GAAP financial statements) that represents interest expense on lease liabilities, income taxes, depreciation and amortization including the component of lease expense (which is presented as a single operating expense in selling, general and administrative expenses in our GAAP financial statements) that represents amortization charges on right-to-use lease assets, and disposals, as adjusted to add back certain charges that we may record each year, such as stock-compensation expense, as well as non-recurring charges such as (i) significant product design changes; (ii) transaction related costs; or (iii) discrete expenses related to major cost cutting initiatives. We believe these expenses are non-recurring charges and not considered an indicator of ongoing company performance. We define Adjusted EBITDA margin as Adjusted EBITDA as a percentage of net sales.

Adjusted Net Income is net income as adjusted to add back certain costs as mentioned above. Adjusted Diluted Earnings per Share represents Adjusted Net Income available to common stockholders by diluted weighted average common shares outstanding (as if we had GAAP net income during the respective period). Adjusted Net Income and Adjusted Diluted Earnings per Share are calculated net of taxes.

Free cash flow represents net cash provided by/used in operating activities minus cash paid for fixed assets Adjusted Free Cash Flow represents Free Cash Flow minus cash paid for (i) significant product design changes; (ii) transaction related costs; or (iii) discrete expenses related to major cost cutting initiatives.

There are limitations to using non-GAAP measures. Although Blue Bird believes that such measures may enhance an evaluation of Blue Bird’s operating performance and cash flows, (i) other companies in Blue Bird’s industry may define such measures differently than Blue Bird does and, as a result, they may not be comparable to similarly titled measures used by other companies in Blue Bird’s industry and (ii) such measures may exclude certain financial information that some may consider important in evaluating Blue Bird’s performance and cash flows.



END

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