


# Blue Bird Corporation

**(Nasdaq: BLBD)**

## Fiscal 2016

## Fourth Quarter & Full-Year Results

**Earnings Conference Call**

**December 13, 2016**

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# Agenda

- **Introductions & Forward-Looking Statements**
  - **Mark Benfield – Director, Investor Relations**
- **Business Overview**
  - **Phil Horlock – President & CEO**
- **Financial Results**
  - **Phil Tighe – CFO**
- **FY2017 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 presented in the Appendix to this presentation.




# Phil Horlock
# President & CEO

# BUSINESS OVERVIEW

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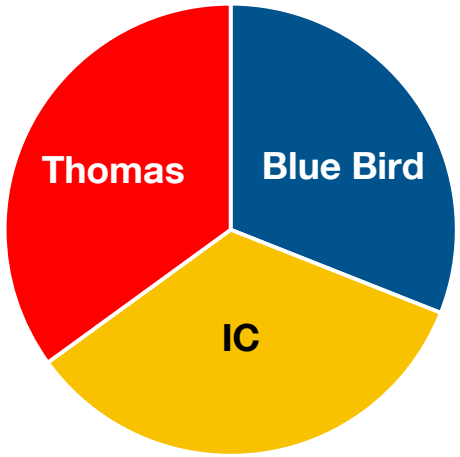
# Industry Overview

**School buses** are America's largest mass transit system

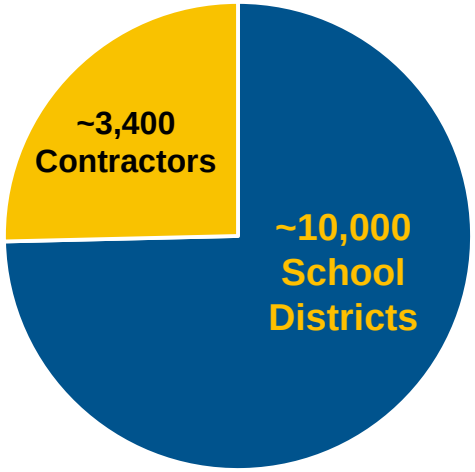
**550,000**
school buses in operation in the U.S. and Canada transporting
**26 MILLION KIDS**
to school on a daily basis



## OEMs




## School Bus Customers




**Safe and reliable transportation for over 26 million students each day**

# FY2016 School Bus Industry Highlights

- FY2016 North American School Bus Industry of 32,700 units was the highest since FY2007 and up 9% versus prior year
- Sales through dealers were up 12% versus FY2015, while sales to the three major national fleets were down 9%
- 65% of registrations occurred in the second half; about 1 point lower than prior year
- Alternative fuel registrations in FY2016 were 9% of industry, up from 6% in FY2015
- Propane registrations were 2,853 units, up 77% versus prior year
- Expect continued industry growth in FY2017

**Demand and increased funding driving industry growth**

# Strong FY2016 Company Performance

- **Blue Bird grew market share in FY2016 based on strong performance through our dealers**
  - **4Q share was 30%, down about 2 points versus prior year**
  - **Full Year total share was 31%, up 1 point**
  - **Full Year Dealer share was 32%, up about 2 points versus prior year**
- **Blue Bird represented over 75% of all propane registrations in FY2016**
- **Blue Bird sold10,616 units in FY2016, reflecting record output for our plant and made possible by the addition of the second shift in January 2016**
  - **4Q sales totaled 3,308 units, down 160 buses from prior year, more than explained by the delay in certification of our new gasoline-powered bus**
- **Propane-powered bus sales totaled 2,240 units, 33% higher than last year. 406 gasoline-powered bused were sold in September**
- **Financial performance for 4Q and Full Year:**

| *($ Millions)* | Fourth Quarter | B/(W) Prior Year | Full Year | B/(W) Prior Year |
|---|---|---|---|---|
| Revenue | $ 286.4 | $ (21.2) | $ 932.0 | $ 12.9 |
| Adj. EBITDA[1] | $ 24.3 | $ (4.7) | $ 72.2 | $ 2.3 |
| Adj. Free Cash Flow[2] | $ 2.6 | $ (50.8) | $ 33.3 | $ (11.3) |

[1] See appendix for reconciliation of net income to Adjusted EBITDA
[2] See slide 14 for reconciliation of cash provided by continuing operations to Adjusted Free Cash Flow

**Grew sales and met guidance**

# Significant Operating Achievements



Focused on customer and dealer technician training




Expanded dealer service capabilities

~4 pts. reduction

Refinanced existing loan at lower rates and favorable terms

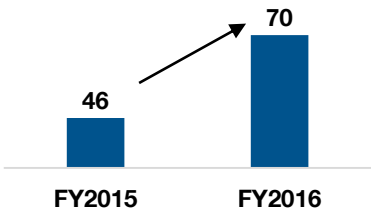
Ford ROUSH CLEANTECH Cummins EATON

- Ford/Roush Propane
- Cummins V8
- Eaton Procision
- Gasoline Engine

Launched new Gasoline Bus, V8 Diesel and Eaton Transmission



Record Micro Bird[1] sales of nearly 3,000 units; #1 in Type A school buses




Increased daily production capacity by more than 50%



Re-entered the commercial bus market

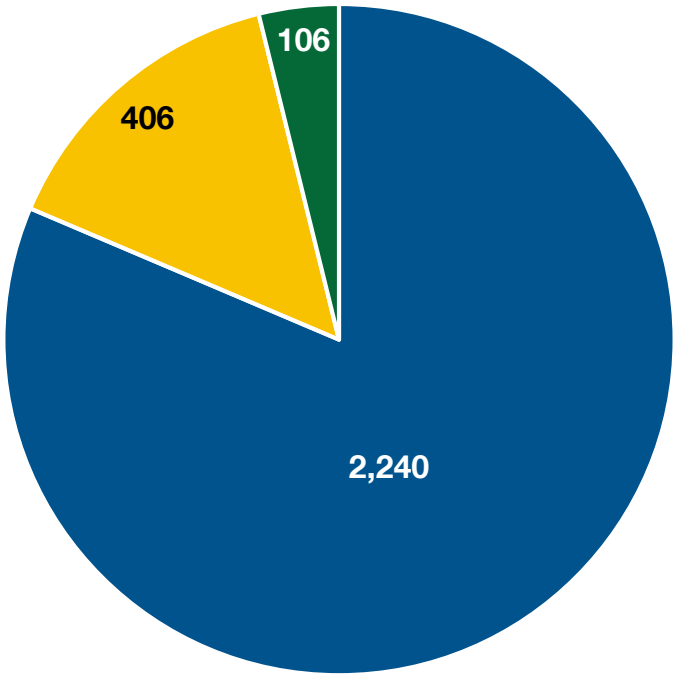


Launched Sigma Bus in El Salvador Market

[1] unconsolidated joint venture

**Continued to make advances in multiple areas**

# Alternative Fuels Leadership




## FY2016 Highlights

- Sold 2,240 propane buses, an increase of 33% versus prior year
- Blue Bird propane-powered Vision has the highest owner loyalty of any school bus in the market[1]
- Delivered 406 new gasoline powered buses in September

## Alternative Fuel Next Steps

- Launch Type C CNG-powered bus in FY2017, providing a lower cost alternative to the traditional rear-engine CNG bus
- Ford/Roush partnership will provide propane, gasoline and CNG with the same engine/transmission combination
- Potential for incremental growth – about 90% of customers have not tried alternative fuel buses

**Undisputed leader in alternative-fuel powered school buses**

[1] Based on R.L. Polk data




## Phil Tighe

## CFO

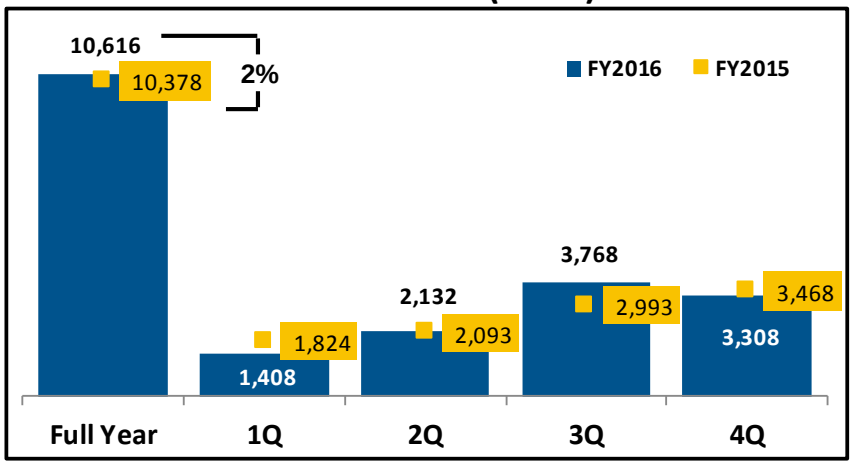
# FINANCIAL RESULTS & OUTLOOK

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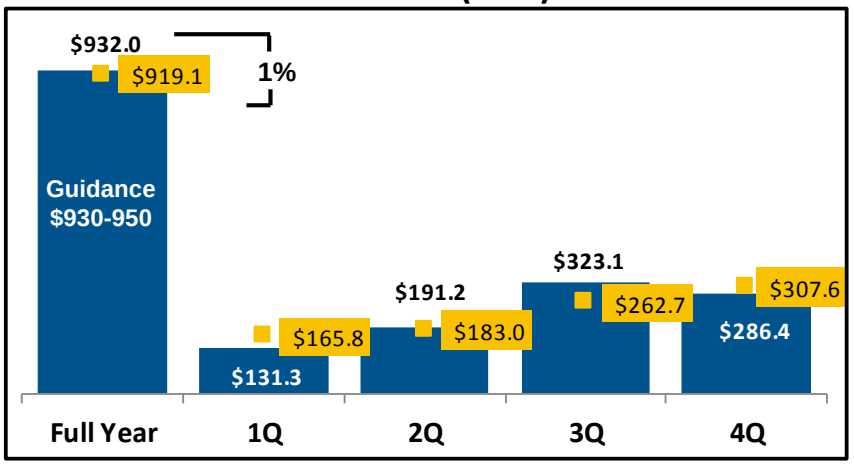
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# FY2016 vs. FY2015 – Financial Summary

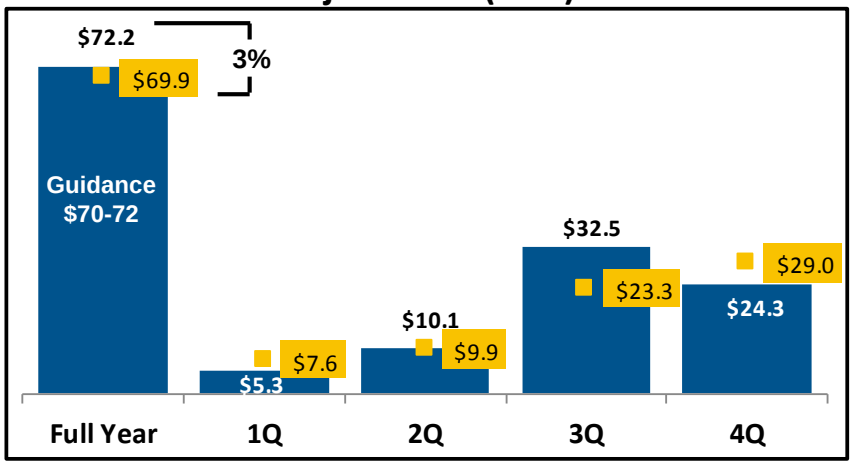
## Sales Volume (Units)



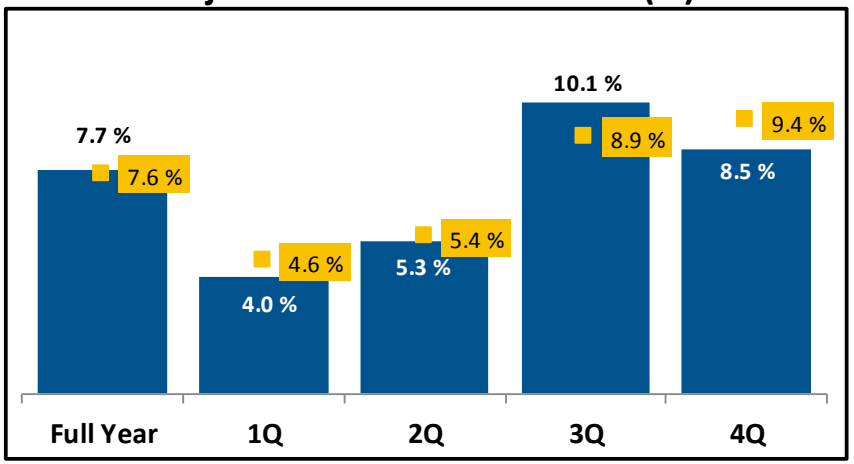

## Revenue (Mils)




## Adj. EBITDA[1] (Mils)



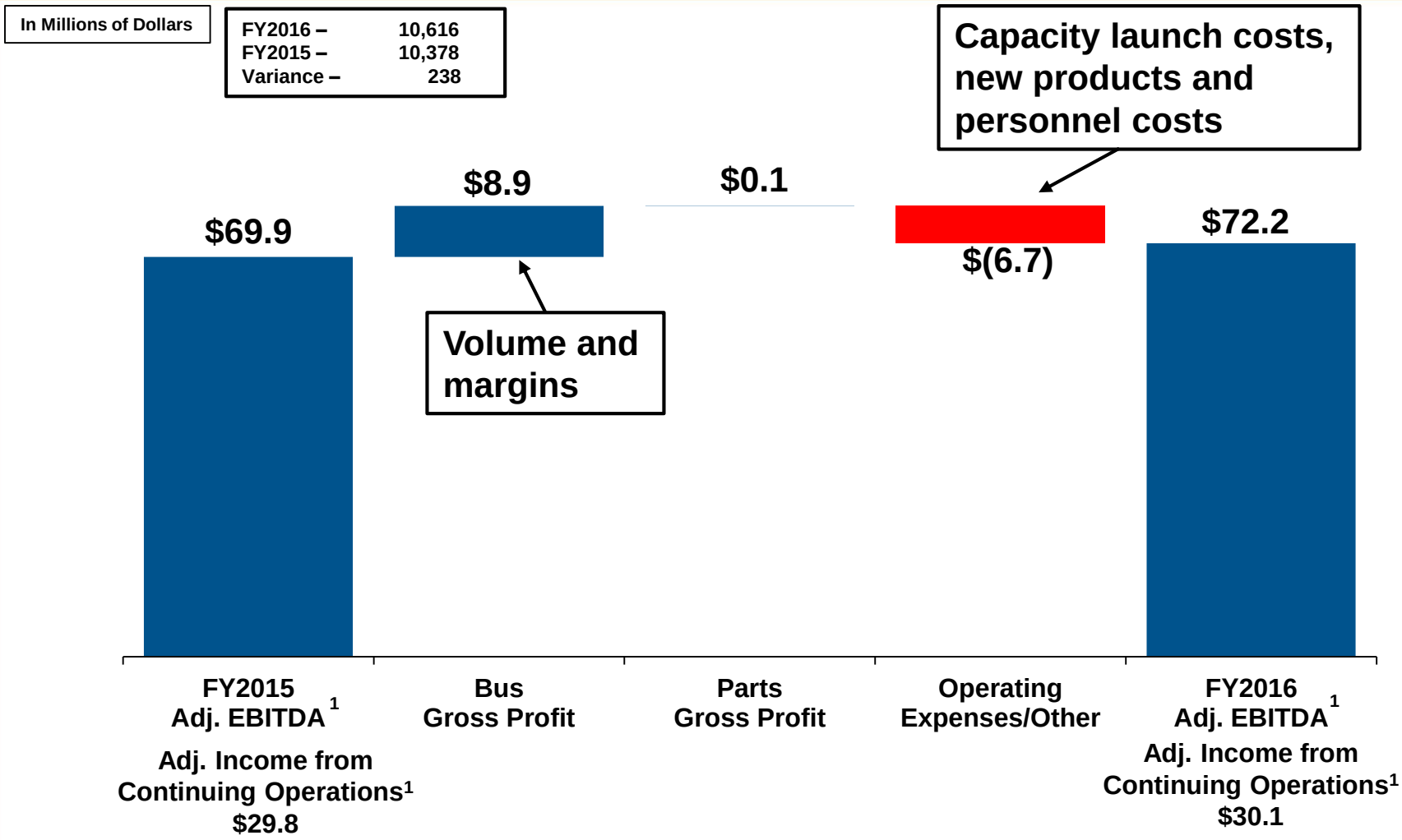

## Adj. EBITDA as % of Revenue (%)




[1]See appendix for additional detail regarding Adjusted EBITDA reconciliation

**Achieved revenue and profit guidance**

# FY2016 vs. FY2015 – Adj. EBITDA

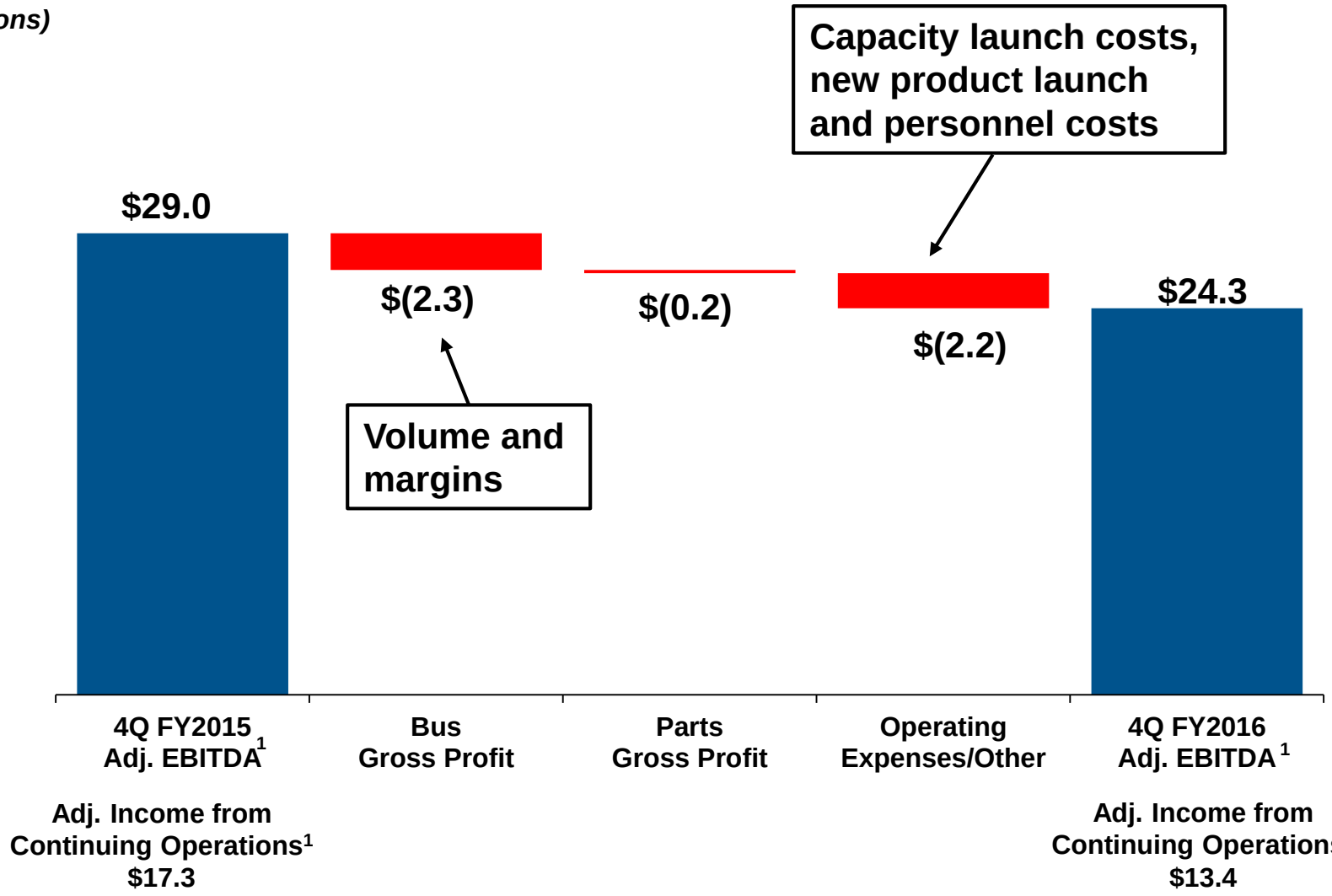



**Profits up 3% versus FY2015; Slightly better than guidance**

[1]See appendix for additional detail regarding Adjusted EBITDA and Adjusted Income from Continuing Operations reconciliations

# 4Q FY2015 to FY2016 Adj. EBITDA Walk

*($ Millions)*




**Lower volume and higher operating expense drive profit change**

[1]See appendix for additional detail regarding Adjusted EBITDA and Adjusted Income from Continuing Operations reconciliations

# Strong Free Cash Flow

| *($ Millions)* | 4Q | | Full Year | |
|---|---|---|---|---|
| | FY2016 | FY2015 | FY2016 | FY2015 |
| Total Cash Provided by Continuing Operations | $ 4.0 | $ 55.1 | $ 25.3 | $ 23.5 |
| Less Cash Paid for Fixed Assets and Acquired Intangibles | (3.1) | (1.8) | (9.6) | (5.2) |
| Free Cash Flow | $ 0.9 | $ 53.4 | $ 15.7 | $ 18.3 |
| Business Combination Expenses | (0.3) | - | (0.5) | (12.5) |
| Special Compensation Payment[1] | (1.4) | - | (17.1) | (13.8) |
| Adjusted Free Cash Flow | $ 2.6 | $ 53.4 | $ 33.3 | $ 44.6 |

[1] Primarily funded by a former majority stockholder

**Achieved guidance for Adjusted Free Cash Flow**

# Improving Net Debt, Leverage & Liquidity

| *($ Millions)* | As of October 1, 2016 |
|---|---|
| **Debt** | **$ 152.1** |
| **Cash** | **52.3** |
| **Net Debt** | **$99.8** |
| | |
| **Net Debt / Adjusted EBITDA (LTM)** | **1.4x** |
| **Net Leverage Ratio**<br>**Compared with minimum bank Net Leverage Ratio covenant of 4.0x** | **1.7x** |
| **Liquidity[1]** | **$ 107.2** |

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

**Significantly below Net Leverage Ratio covenant; liquidity strong**

# Improved Financing

## Prior Credit Agreement

**Rate:**

| Term Loan | Revolver |
|---|---|
| LIBOR (Floor 1%) | LIBOR |
| + | + |
| 5.5% | 5.5% |

**Term:**
**Expires June 2020**

**Amortization:**
**5% per annum**

**Revolver Size:**
**$60 Million**

## New Credit Agreement

**Rate (Grid Pricing):**

| Total Net Leverage Ratio | Eurodollar Loans |
|---|---|
| Less than 2.00x | 1.75% |
| Greater than or equal to 2.00x and less than 2.50x | 2.00% |
| Greater than or equal to 2.50x and less than 3.00x | 2.25% |
| Greater than or equal to 3.00x | 2.50% |

**Term:**
**Expires December 2021**

**Amortization:**
**5% Yrs 1-3, 7.5% Yr 4, 10% Yr 5**

**Revolver Size:**
**$75 Million**

**Over $4 million cash interest savings for FY2017**




# Phil Horlock
# President & CEO

# FY2017 Outlook & Guidance

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# Continued Growth in FY2017

- Projecting industry of 33,000 units, driven by demand and availability of funds
- Blue Bird unit sales are projected to grow 6-8%, supported by:
  - Continued industry growth
  - Demand for propane-powered buses
  - Value-oriented product introductions:
    - Gasoline-powered Vision (full year of sales)
    - Type C CNG
  - Growth in Commercial and Export bus sales
- Bus production schedule is full for 1Q and the backlog at the end of FY2016 was about 1,200 units, up almost 12% versus prior year
  - Quote activity up 12% over prior year for September – November
- Financial outlook is for modest growth, with volume gains partially offset by higher commodity prices and continued investment in new product
- Expect first half to be flat versus prior year



# FY2017 Guidance

| *($ Millions)* | FY2016 | FY2017G | 2017G B/(W) 2016 |
|---|---|---|---|
| **Net Sales** | **$932** | **$980-1,010** | **$48-78** |
| **Adj. EBITDA** | **$72** | **$72-76** | **$0-4** |
| **Adj. Free Cash Flow[1]** | **$33** | **$38-42** | **$5-9** |

[1] Excludes business combination expenses and special compensation payments

**Continuing to grow sales, profit and cash**




# Q&A

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# Appendix

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# Adj. EBITDA Reconciliation

**Reconciliation of GAAP Net Income to Adjusted EBITDA**
**(Unaudited)**

| (in thousands of dollars) | Three Months Ended | | Fiscal Year Ended | |
|---|---|---|---|---|
| | October 1, 2016 | October 3, 2015 | October 1, 2016 | October 3, 2015 |
| Net income | $ 10,777 | $ 15,972 | $ 6,900 | $ 14,932 |
| Loss from discontinued operations, net of tax | (282) | (125) | (328) | (129) |
| Income from continuing operations | $ 11,059 | $ 16,097 | $ 7,228 | $ 15,061 |
| Interest expense | 3,676 | 4,605 | 16,412 | 19,078 |
| Interest income | (15) | (74) | (133) | (113) |
| Income tax expense | 3,920 | 4,434 | 5,989 | 4,442 |
| Depreciation, amortization, and disposals | 2,064 | 2,159 | 8,118 | 9,300 |
| Special compensation payment (1) | 16 | — | 17,128 | 13,788 |
| Public company expenses, non-recurring | — | 494 | — | 3,148 |
| Business combination expenses | 3,559 | 162 | 3,798 | 3,526 |
| One-time post-retirement benefit adjustment | — | — | 896 | — |
| Share-based compensation | — | 1,109 | 12,717 | 1,635 |
| Adjusted EBITDA | $ 24,279 | $ 28,986 | $ 72,153 | $ 69,865 |
| Adjusted EBITDA margin (percentage of net sales) | 8.5% | 9.4% | 7.7% | 7.6% |

(1) The special compensation payments for fiscal 2016 and 2015 were primarily funded by contributions from our former majority stockholder concurrent with the June 2016 change in control and the 2015 Business Combination, respectively. With the 2016 payment and change in majority ownership, this incentive program has concluded.

# Adj. Income from Cont. Ops. Reconciliation

**Reconciliation of Net Income to Adjusted Income from Continuing Operations**
**(Unaudited)**

| (in thousands) | Three Months Ended | | Fiscal Year Ended | |
|---|---|---|---|---|
| | October 1, 2016 | October 3, 2015 | October 1, 2016 | October 3, 2015 |
| Net income, GAAP | $ 10,777 | $ 15,972 | $ 6,900 | $ 14,932 |
| Add: loss from discontinued operations, net of tax, GAAP | 282 | 125 | 328 | 129 |
| Income from continuing operations, GAAP | 11,059 | 16,097 | 7,228 | 15,061 |
| One-time charge adjustments, net of tax benefit (1) | | | | |
| Special compensation payment | 10 | — | 11,133 | 8,962 |
| Public company expenses, non-recurring | — | 321 | — | 2,046 |
| Business combination expenses | 2,313 | 105 | 2,469 | 2,292 |
| Loss on disposal of fixed assets | 28 | 10 | 47 | 332 |
| One-time post-retirement benefit adjustment | — | — | 582 | — |
| Share-based compensation (2) | — | 721 | 8,619 | 1,063 |
| Adjusted income from continuing operations, non-GAAP | 13,410 | 17,254 | 30,078 | 29,756 |

(1) Amounts are net of federal statutory tax rate of 35%.
(2) Also includes tax shortfall expense.

# Adj. Diluted EPS Reconciliation

**Reconciliation of GAAP Diluted EPS to Non-GAAP Diluted EPS**
**(Unaudited)**

| (in thousands) | Three Months Ended | | Fiscal Year Ended | |
|---|---|---|---|---|
| | October 1, 2016 | October 3, 2015 | October 1, 2016 | October 3, 2015 |
| Diluted earnings per share, continuing operations, GAAP | $ 0.40 | $ 0.63 | $ 0.16 | $ 0.59 |
| One-time charge adjustments, net of tax benefit and inclusion of dilutive securities | 0.09 | 0.05 | 1.01 | 0.58 |
| Adjusted diluted earnings per share from continuing operations, non-GAAP (1) | $ 0.49 | $ 0.68 | $ 1.17 | $ 1.17 |
| Weighted average dilutive shares outstanding, non-GAAP (2) | 27,581,678 | 25,437,869 | 25,629,683 | 25,497,602 |

(1) Numerator is adjusted income from continuing operations, non-GAAP.

(2) With adjusted income from continuing operations for the fiscal year ended 2016, 4,314,064 shares of convertible preferred stock were included in the weighted average dilutive shares outstanding, non-GAAP. The shares were excluded from the GAAP diluted earnings per share calculation since the if-converted impact would be anti-dilutive and, as a result, the numerator used in the GAAP calculation included the preferred stock dividend impact on income.

# Important Disclaimers

**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 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.**

# Important Disclaimers

**Non-GAAP Financial Measures**

**This presentation may include the following non-GAAP financial measures: "Adjusted EBITDA," "Adjusted Income from Continuing Operations," "Adjusted Diluted Earnings per Share," "Free Cash Flow" and "Adjusted Free Cash Flow." Adjusted EBITDA is defined as income from continuing operations prior to interest income, interest expense, income taxes, and depreciation and amortization, as adjusted to add back certain charges that we may record each year, such as stock-compensation expense and transaction costs, as these expenses are not considered an indicator of ongoing company performance. Adjusted Net Income is defined as Net Income, as adjusted to add back certain transaction costs not considered an indicator of ongoing company performance. Adjusted Diluted Earnings per Share represents adjusted income (loss) from continuing operations divided by diluted weighted average common shares outstanding (as if we had GAAP net income during the respective period). Adjusted Net Income from continuing operations and Adjusted Diluted Earnings per Share are calculated net of taxes. Free cash flow represents net cash provided by continuing operations minus cash paid for fixed assets. Adjusted Free Cash Flow represents Free Cash Flow excluding cash paid for special compensation and other business combination expenses.**

**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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