Blue Bird Corporation

(Nasdaq: BLBD)

Fiscal 2019
First Quarter Results

Earnings Conference Call

February 6, 2019



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BUILT TO TAKE ON TOMORROW.

Agenda

- **Introductions & Forward-Looking Statements**
  - **Mark Benfield – Director, 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 presented in the Appendix to this presentation.



Phil Horlock
President & CEO

BUSINESS OVERVIEW

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Overview

- **Strong 1Q result in softest quarter of the year**
  - 1,600 buses sold, 105 buses lower than last year, in line with our plan
  - Total Net Sales of $154.9M, $7.6M below last year
  - Adjusted EBITDA of $7.2M, $0.1M above last year
  - Adjusted Net Income of $1.3M and Adjusted Diluted EPS of 5 cents, up $1.6M and 9 cents from last year, respectively
  - Adjusted Free Cash Flow was $56.6M negative, reflecting seasonality and in line with our expectations

- **Business fundamentals are strong**
  - FY2019 industry outlook of ~35,000 school buses is unchanged
  - Record 1Q mix of alternative-fuel powered buses at 34% of total sales, up 3 pts. from last year
  - Strong interest in Electric and Ultra-Low NOx Propane-powered buses
  - Pricing by Blue Bird late in FY2018 is offsetting commodity cost increases experienced in FY2018
  - Significant cost savings achieved in 1Q and will increase throughout the year

- **Our previously-announced transformational actions to improve cost structure, efficiency, capacity and product are on track.**
  - In FY2019, we will benefit from a full year of the cost reductions implemented from mid-2018
  - Our new, state-of-the-art paint shop will launch in the Second Half of FY2019
  - Substantial efficiency improvements planned in our assembly operations
  - Significant new product and feature upgrades are under development for future launch

- **Reaffirming FY2019 Guidance, with mid-point of range for Adj. EBITDA at $83M, 18% above FY2018**

- **We are on track to achieve an Adj. EBITDA margin of 10%+ by FY2020**

Increased profit despite higher commodity prices and lower volume

Significant Operating Achievements

Quality
Efficiency
Capacity

Adj. EBITDA Margin

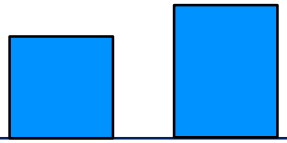
Transformational initiatives on track

All-New Paint Facility



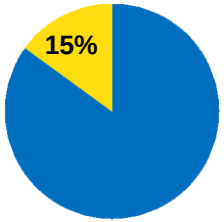
Robots have been delivered; launch planned for April

Increased prices to offset impact of higher steel and freight costs



Rev./Unit on School Buses is up 3% versus last year

1Q Customers



15% of our customers were conquest accounts

Alternative Fuels Mix is

42%

of total bookings and order backlog compared with 30% last year[1]



Alt. fuel-powered bus shipments and backlog up 25% from last year[1]

Strong interest in all-electric buses



Quoted 100+ electric buses in 14 states

Net Sales: $990 - $1,025M

Adj. EBITDA: $80 - 85M

Adj. FCF: $24 - $28M

Reaffirming Full-Year Guidance

Continuing to make advances in multiple areas; focused on profit growth

[1] as of 2/4/19

1Q Financial Results

Bus Sales

$139.2 Million

Down $8.9 Million

Total Net Sales

$154.9 Million

Down $7.6 Million

Parts Sales

$15.7 Million

Up $1.3 Million

Adj. EBITDA[1]

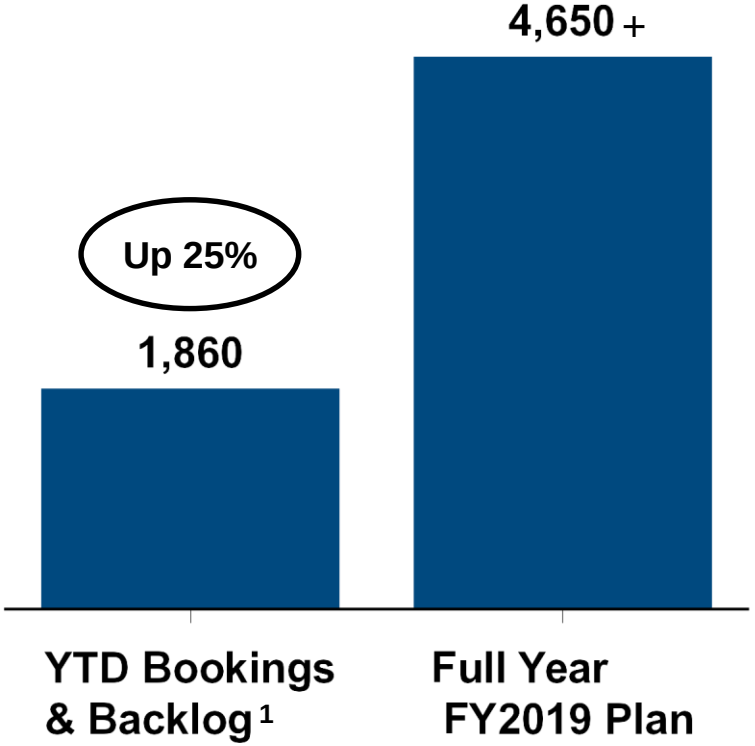
$7.2 Million

Up $0.1 Million

Slightly higher profit despite lower bus sales; strong growth in Parts sales

[1]See appendix for additional detail regarding Adjusted EBITDA

Alternative-Fuel Leadership



FY2019 1Q Highlights

- 1Q alternative-fuel bus sales were 4% higher than prior year and record 1Q sales mix at 34%
- YTD [1] unit sales and order backlog up 25%
- 50+ new Alt. Fuels customers added
- 14 states have requested quotes for electric; strong interest and quote pipeline

Opportunities

- VW mitigation funds
  - 30 states have earmarked specific funds for school bus purchases; 20 yet to finalize plans
  - Only major OEM with all-electric and ultra-low NOx school buses available
  - 50+ electric buses in our backlog
- Less than 15% of customers have purchased alternative-fuel powered buses

With our Ultra-Low NOx Propane and Electric bus offerings, Blue Bird is well positioned to take advantage of the VW mitigation funds

[1] as of 2/4/19



Phil Tighe

CFO

FINANCIAL RESULTS & OUTLOOK

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1Q Results – Summary

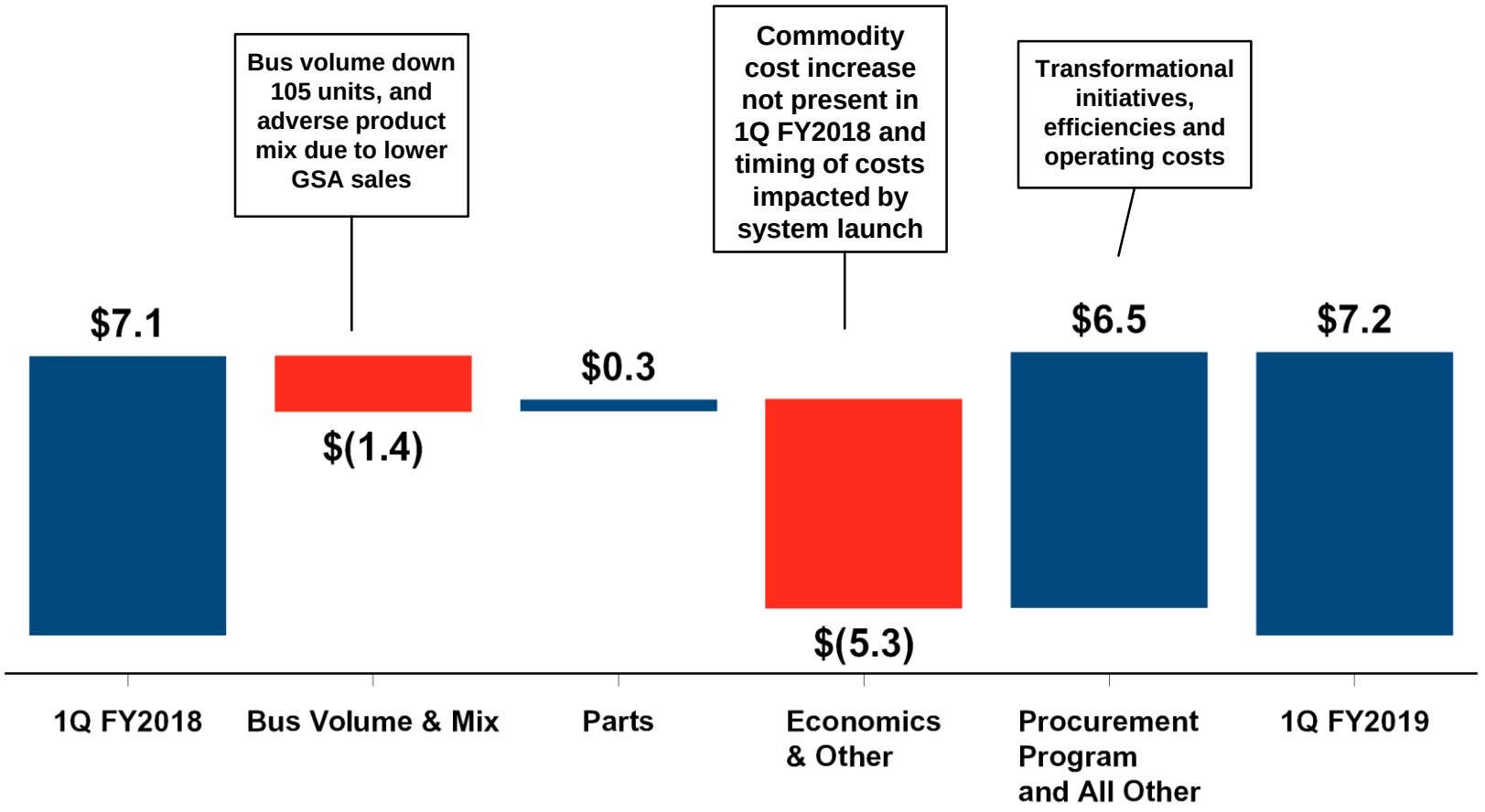
($ Millions except EPS & Margin)	1Q FY2019	1Q FY2018	B/(W)
Unit Volume	1,600	1,705	(105)
Net Revenue	$154.9	$162.5	$(7.6)
Gross Margin	12.3%	12.7%	(40) bps.
Net Loss	$(1.2)	$(7.8)	$6.6
Adj. Net Income (Loss)[1]	$1.3	$(0.3)	$1.6
Adj. EBITDA[1]	$7.2	$7.1	$0.1
Adj. EBITDA Margin	4.7%	4.3%	30 bps.
Diluted EPS	$(0.05)	$(0.36)	$0.31
Adj. Diluted EPS[1]	$0.05	$(0.05)	$0.09
Cash	$18.8	$23.2	$(4.4)
Debt	$209.9	$149.4	$(60.5)

Adjusted EBITDA up slightly while volume down by 105 units

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

1Q FY2018 to FY2019 Adj. EBITDA Walk

($ Millions)



Volume was down versus prior year, primarily due to lower deliveries to the GSA. The adverse impact of higher commodity costs was offset by transformational initiatives and other actions

[1]See appendix for additional detail regarding Adjusted EBITDA

1Q FY2019 Free Cash Flow

($ Millions)	1Q FY2019	1Q FY2018
Adjusted EBITDA	$ 7.2	$ 7.1
Cash Paid for Interest (Net)	(2.4)	(1.3)
Trade Working Capital[1]	(41.4)	(20.6)
CAPEX	(10.8)	(3.4)
Cash Taxes	—	—
Other[2]	(9.2)	(9.5)
Adjusted Free Cash Flow	$ (56.6)	$ (27.7)
Operational Transformation Initiatives/Other	(0.2)	(7.0)
Product Redesign	(2.2)	(2.6)
Free Cash Flow	$ (59.0)	$ (37.3)

[1] Inventories, accounts receivable and accounts payable

[2] Accrued expenses and other receivables

Working Capital outflow reflects inventory build in 1Q 2019 from September 30, 2018 low point

Improving Net Debt, Leverage & Liquidity

($ Millions)	As of December 29, 2018
Debt	$209.9
Cash	18.8
Net Debt	$191.1
Net Debt / Adjusted EBITDA	2.7x
Net Leverage Ratio Compared with minimum bank Net Leverage Ratio covenant of 4.0x	2.8x
Liquidity[1]	$91.9

[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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Profit and Margin Growth Targeted for FY2019

- **School bus market on track for another strong ~35,000 unit industry, supported by continued growth in property taxes, age of the fleet and funding from VW Settlement**
- **Blue Bird expects substantially higher gross profit margins than FY2018 due to:**
  - **Pricing already implemented in late FY2018 which takes full effect in FY2019, offsetting the impact of steel and other commodity price increases**
  - **The full-year benefit from the transformational cost reductions we saw in the Second Half of FY2018, and further actions are planned**
  - **New paint shop and other facility and process improvements launching in FY2019 will increase manufacturing efficiencies**
- **FY2019 financial targets are consistent with our FY2020 EBITDA margin goal of 10%+**



Reaffirming FY2019 Full Year Guidance

$ Millions	FY2018 Actual	FY2019 Guidance	FY2019G B/(W) FY2018
Net Sales	$1,025	$990 - $1,025	$(35) - $0
Adj. EBITDA[1]	$70	80-85	$10 - $15
Adj. Free Cash Flow[1]	$40	$24 - $28	$(12) - $(16)

FY2019 Guidance range for Adjusted EBITDA 14% to 21% higher than FY2018, driven by improvements in net selling price and major cost reduction initiatives. Actions in place support achieving our 10%+ EBITDA margin by FY2020

[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 December 29, 2018	Three Months Ended December 30, 2017
Net loss	$ (1,220)	$ (7,839)
Adjustments:		
Discontinued operations income	—	(87)
Interest expense, net (1)	2,968	1,437
Income tax (benefit) expense	(236)	1,352
Depreciation, amortization, and disposals (2)	2,407	2,111
Operational transformation initiatives	244	6,958
Unrealized loss on foreign currency hedges	109	—
Share-based compensation	852	624
Product redesign initiatives	2,150	2,574
Other	(57)	(61)
Adjusted EBITDA	$ 7,217	$ 7,069
Adjusted EBITDA margin (percentage of net sales)	4.7%	4.3%

(1) Includes $0.1 million, 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, 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 December 29, 2018	Three Months Ended December 30, 2017
Net cash used in operating activities	$ (48,208)	$ (33,808)
Cash paid for fixed assets	(10,787)	(3,449)
Free cash flow	$ (58,995)	$ (37,257)
Cash paid for product redesign initiatives	(2,150)	(2,574)
Cash paid for operational transformation initiatives	(244)	(6,958)
Adjusted free cash flow	(56,601)	(27,725)

Adjusted EPS Reconciliation

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Reconciliation of Net Loss to Adjusted Net Income

(in thousands of dollars)	Three Months Ended December 29, 2018	Three Months Ended December 30, 2017
Net loss	$ (1,220)	$ (7,839)
Adjustments, net of tax benefit or expense (1)		
Operational transformation initiatives	183	5,219
Product redesign initiatives	1,613	1,931
Unrealized loss on foreign currency hedges	82	—
Share-based compensation	639	468
Discontinued operations income	—	(65)
Other	(43)	(46)
Adjusted net income (loss), non-GAAP	1,254	(333)
Less: preferred stock dividends	—	770
Adjusted net income (loss) available to common stockholders, non-GAAP	1,254	(1,103)

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

Reconciliation of Diluted EPS to Adjusted Diluted EPS

	Three Months Ended December 29, 2018	Three Months Ended December 30, 2017
Diluted loss per share	$ (0.05)	$ (0.36)
One-time charge adjustments, net of tax benefit or expense	0.10	0.31
Adjusted diluted earnings (loss) per share, non-GAAP (1)	$ 0.05	$ (0.05)
Weighted average dilutive shares outstanding (2)	27,048,765	23,924,045

(1) Numerator is adjusted net income, non-GAAP for the three months ended December 29, 2018. Numerator is adjusted net loss available to common stockholders, non-GAAP for the three months ended December 30, 2017.
(2) Weighted average dilutive shares outstanding for the three months ended December 29, 2018 excluded 745,900 shares 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**
- ① **Growth opportunities**
- ① **Future profitability**
- ① **Ability to expand market share**
- ① **Customer demand for certain products**
- ① **Economic conditions (including tariffs) that could affect fuel costs, commodity costs, industry size and financial conditions of our dealers and suppliers**
- ① **Labor or other constraints on the Company's ability to maintain a competitive cost structure**
- ① **Volatility in the tax base and other funding sources that support the purchase of buses by our end customers**
- ① **Lower or higher than anticipated market acceptance for our products**
- ① **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.

Important Disclaimers

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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.



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