Blue Bird Corporation

(Nasdaq: BLBD)

Fiscal 2019
Third Quarter Results

Earnings Conference Call

August 7, 2019



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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**
- **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 3Q result with Adjusted EBITDA up 20%**
  - Adjusted EBITDA of $29.0M, $4.9M above last year; fourth consecutive quarter of increased profit
  - 3,420 buses sold, 326 buses lower than last year, primarily due to customer-delivery timing
  - Total Net Sales of $308.8M, $5.4M or 2% below last year; unit bus selling price increased by 8%
  - Adjusted Free Cash Flow was $4.0 million, $32.2 million lower due to working capital timing
  - Adjusted Diluted EPS of 69 cents, down 23 cents from a year ago, more than explained by the non-recurrence of one-time tax benefits last year

- **Business fundamentals are strong**
  - FY2019 industry outlook of ~34,000-35,000 school buses is unchanged
  - Record 3Q mix of alternative-fuel powered buses at 53% of total unit sales, up from 35% last year
  - Average bus selling price substantially higher; significant cost reductions being achieved
  - Gross Profit Margin of 13.5%, 1.7 pts higher than last year

- **Transformational actions on track – improving cost, efficiency, capacity and product**
  - Benefiting from cost reductions implemented from mid-year 2018; continuing to drive savings
  - New paint facility is operational (soft launch commenced July); production ramp-up through 2019
  - Substantial efficiency improvements planned in assembly operations
  - Significant new product and feature upgrades are under development for future launch

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

- **On track to achieve Adjusted EBITDA margin of 10%+ by FY2020**

Increased profit from pricing and cost reductions; Gross Margin up 1.7 pts

Significant Operating Achievements

Quality ↑
Costs ↓
Capacity ↑

Adj. EBITDA Margin ↑

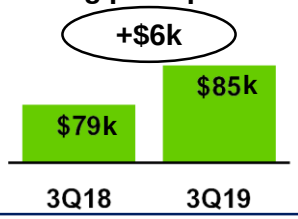
Transformational initiatives on track; 3Q Gross Margin up 1.7 pts.

All-New Paint Facility



Soft Launch commenced; full production target is early 1Q FY2020

Significant increase in selling price per bus



Bus Rev./Unit is up 8% versus last year

Introduced New and Exclusive "X-Parts" Brand for School Buses

X-Parts

Service and maintenance parts for all-makes and models of buses

Record Alternative Fuels Unit Sales Mix

48%

of total bookings and order backlog compared with 38% last year[1]



Alt. fuel-powered bus shipments and backlog up 21% from last year[1]

Approved for California Energy Commission Grant



One of only two OEMs approved for CEC electric bus grants

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 product, quality and cost to drive profitable growth

[1] as of 8/7/19

YTD and 3Q Financial Results

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Bus Sales	
YTD	3Q
$626.4M	$292.2M
Down $21.1M	Down $5.5M

Total Net Sales	
YTD	3Q
$675.3M	$308.8M
Down $18.0M	Down $5.4M

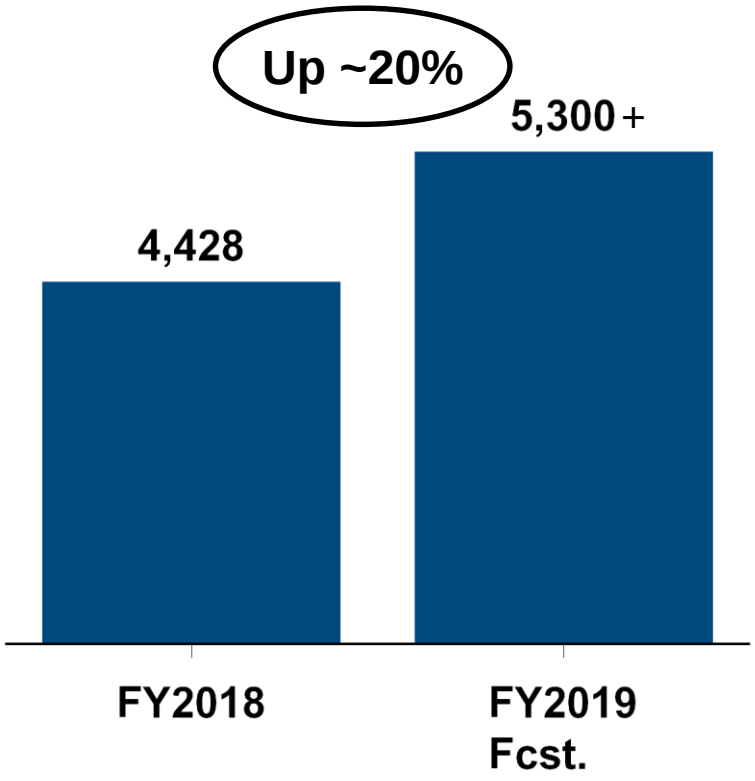
Parts Sales	
YTD	3Q
$48.9M	$16.6M
Up $3.1M	Up $0.1M

Adj. EBITDA[1]	
YTD	3Q
$48.5M	$29.0M
Up $7.2M	Up $4.9M

YTD bus sales shortfall will narrow in 4Q.
Profits higher due to pricing, cost reductions and alternative-fuels mix

[1]See appendix for additional detail regarding Adjusted EBITDA

Alternative-Fuel Leadership



FY2019 3Q Highlights

- 3Q alternative-fuel unit sales were 38% higher than prior year and record 3Q sales mix at 53%
- YTD [1] unit sales and order backlog up 21%
- Electric bus interest is very strong
- Adding 150+ new alternative fuel customers in FY2019

Opportunities

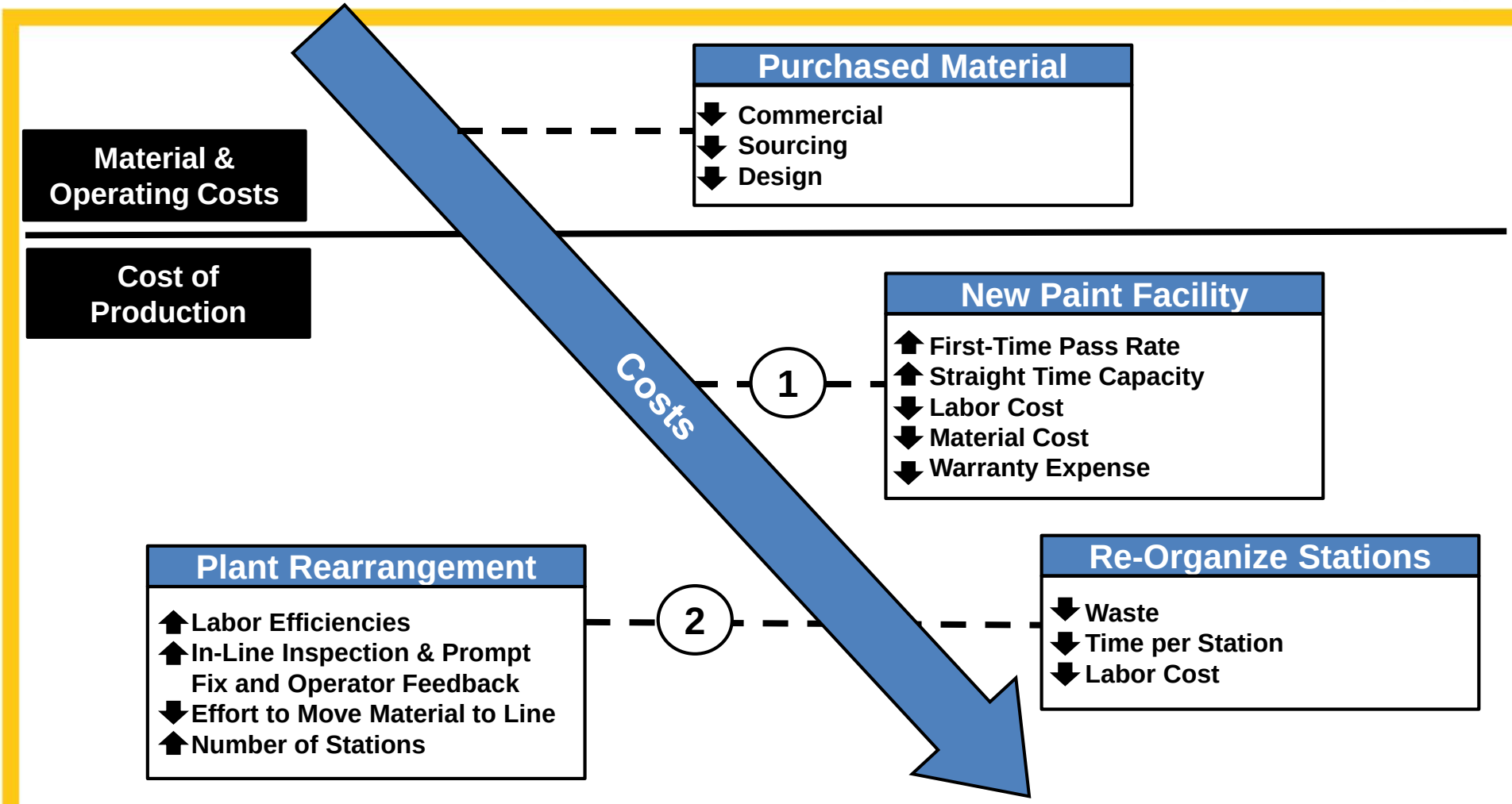
- VW mitigation funds
  - 47 states have finalized VW funding plan but only ~$150M of $2.7B total has been awarded
  - Only major OEM with all-electric and ultra-low NOx school buses available
  - 100+ electric buses ordered
- Electric buses qualified for $75M CEC grant funding
- Less than 15% of customers 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 8/6/19

Driving Down Total Costs



Transformational Initiatives are driving down total costs and improving quality; present implementation status is about 50%



Phil Tighe

CFO

3Q FINANCIAL RESULTS

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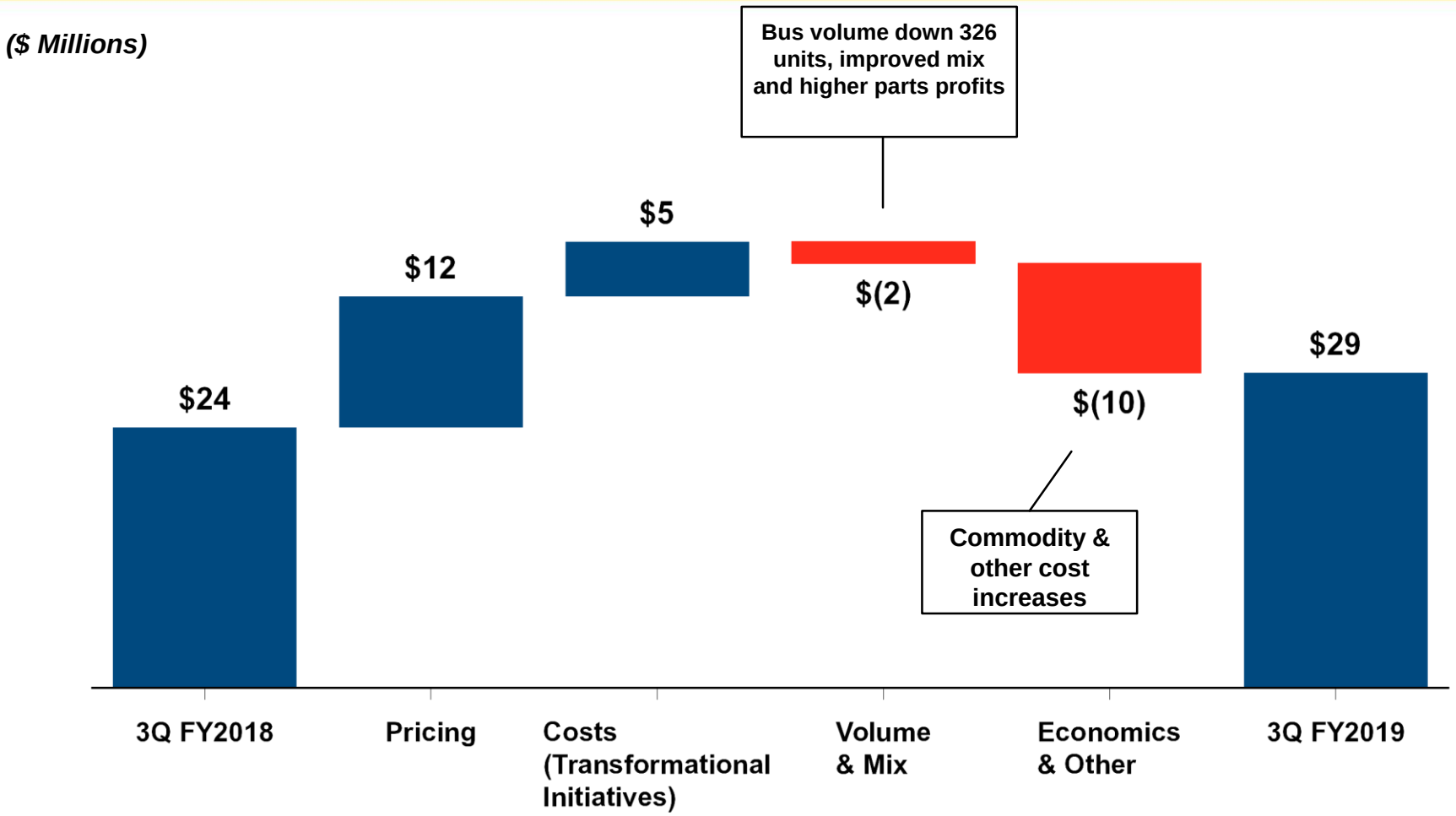
3Q Results – Summary

($ Millions unless noted)	3Q FY2019	3Q FY2018	B/(W)
Unit Volume	3,420	3,746	(326)
Net Revenue	$308.8	$314.2	$(5.4)
Bus Rev./Unit ($000's)	*$85.4*	*$79.5*	*$6.0*
Gross Margin	13.5%	11.8%	1.7 pts.
Net (Loss) Income	$14.6	$21.9	$(7.3)
Adj. Net Income[1]	$18.3	$26.2	$(7.9)
Adj. EBITDA[1]	$29.0	$24.2	$4.9
Adj. EBITDA Margin	9.4%	7.7%	1.7 pts.
Diluted EPS ($'s)	$0.55	$0.77	$(0.22)
Adj. Diluted EPS[1] ($'s)	$0.69	$0.92	$(0.23)
Cash	$29.1	$41.9	$(12.8)
Debt	$210.4	$145.8	$(64.6)

Improving business fundamentals:
Unit Revenue, Gross Profit Margin, Adj. EBITDA Profit and Margin

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

3Q FY2018 to FY2019 Adj. EBITDA Walk



Pricing and cost reductions through Transformational Initiatives drive higher profits despite lower volume and higher commodity and other costs

[1]See appendix for additional detail regarding Adjusted EBITDA

3Q FY2019 Free Cash Flow

($ Millions)	3Q FY2019	3Q FY2018
Adjusted EBITDA	$ 29.0	$ 24.2
Cash Paid for Interest (Net)	(2.9)	(1.6)
Trade Working Capital[1]	(20.7)	14.8
CAPEX	(7.4)	(8.6)
Cash Taxes	(0.1)	(0.1)
Other[2]	6.1	7.5
Adjusted Free Cash Flow	$ 4.0	$ 36.2
Operational Transformation Initiatives/Other	(0.7)	(3.2)
Product Redesign	(3.1)	(1.5)
Free Cash Flow	$ 0.2	$ 31.5

[1] Inventories, accounts receivable and accounts payable

[2] Accrued expenses and other receivables

Lower free cash flow due to timing of TWC (higher receivables and temporary increase in inventories); Full Year Guidance confirmed

Improving Net Debt, Leverage & Liquidity

($ Millions)	As of June 29, 2019
Debt	$210.4
Cash	29.1
Net Debt	$181.3
Net Debt / Adjusted EBITDA	2.3x
Net Leverage Ratio Compared with minimum bank Net Leverage Ratio covenant of 4.0x	2.6x
Liquidity[1]	$97.2

[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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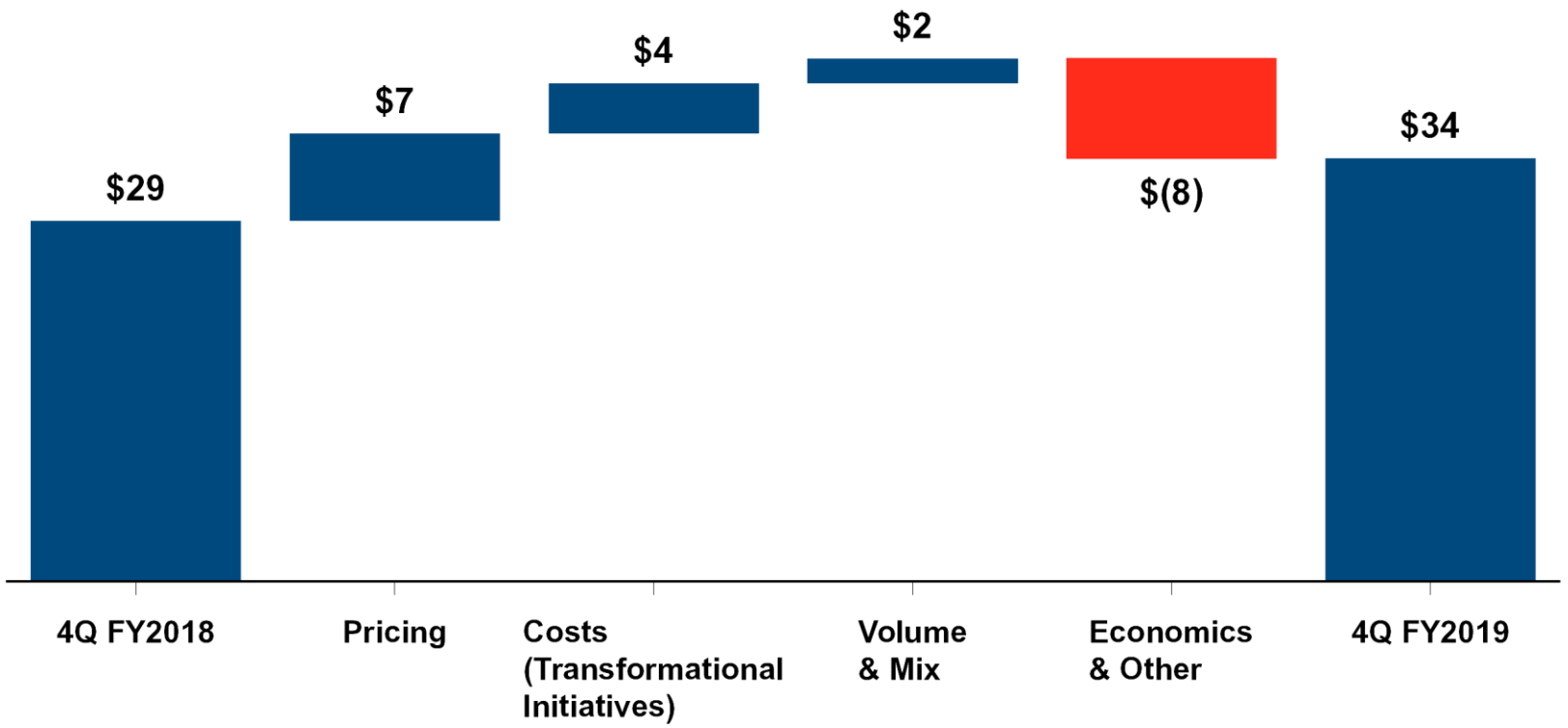
Profit and Margin Growth Targeted for FY2019

- School bus market on track for another strong ~34-35,000 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; industry pricing of 2% taken in July
  - The full-year benefit from the transformational cost reductions we saw in the Second Half of FY2018, and further actions in FY2019 and beyond
  - New paint shop and other facility and process improvements launching in FY2019 will increase manufacturing efficiencies, with major impact expected in FY2020
  - Favorable impact of higher mix of alternative fuel-powered buses at superior margins
- FY2019 financial targets are consistent with our FY2020 EBITDA margin goal of 10%+



4Q FY2018 to FY2019 Adj. EBITDA Outlook

($ Millions)



Five consecutive quarters of profit growth driven by consistent strategy

[1]See appendix for additional detail regarding Adjusted EBITDA

Reaffirming FY2019 Full Year Guidance

$ Millions	FY2018 Actual	FY2019 Guidance	FY2019G B/(W) FY2018	YTD FY2019	4Q FY 2019 Outlook (to midpoint of Guidance)
Net Sales	$1,025	$990 - $1,025	$(35) - $0	$675	$333
Adj. EBITDA[1]	$70	80-85	$10 - $15	$48	$34
Adj. Free Cash Flow[1]	$40	$24 - $28	$(12) - $(16)	$(38)	$64

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 10%+ EBITDA margin objective 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 Income to Adjusted EBITDA

(in thousands of dollars)	Three Months Ended		Nine Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Net income	$ 14,601	$ 21,891	$ 12,708	$ 15,888
Adjustments:				
Discontinued operations income	—	—	—	(81)
Interest expense, net (1)	3,472	1,809	10,544	5,070
Income tax expense (benefit)	3,248	(7,485)	2,833	(5,662)
Depreciation, amortization, and disposals (2)	2,750	2,203	7,989	6,483
Operational transformation initiatives	679	3,169	4,193	13,547
Foreign currency hedges	—	208	109	(828)
Share-based compensation	1,101	870	3,146	2,380
Product redesign initiatives	3,075	1,497	6,876	4,526
Other	115	(10)	62	(54)
Adjusted EBITDA	$ 29,041	$ 24,152	$ 48,460	$ 41,269
Adjusted EBITDA margin (percentage of net sales)	9.4%	7.7%	7.2%	6.0%

(1) Includes $0.1 million and $0.3 million for the three and nine months ended June 29, 2019, 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 and $0.6 million for the three and nine months ended June 29, 2019, 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		Nine Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Net cash provided by (used in) operating activities	$ 7,659	$ 40,079	$ (19,113)	$ 7,022
Cash paid for fixed and acquired intangible assets	(7,448)	(8,551)	(30,154)	(15,572)
Free cash flow	$ 211	$ 31,528	$ (49,267)	$ (8,550)
Cash paid for product redesign initiatives	(3,075)	(1,497)	(6,876)	(4,526)
Cash paid for operational transformation initiatives	(679)	(3,169)	(4,193)	(13,547)
Adjusted free cash flow	3,965	36,194	(38,198)	9,523

Adjusted EPS Reconciliation

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Reconciliation of Net Income to Adjusted Net Income

(in thousands of dollars)	Three Months Ended		Nine Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Net income	$ 14,601	$ 21,891	$ 12,708	$ 15,888
Adjustments, net of tax benefit or expense (1)				
Operational transformation initiatives	509	2,377	3,145	10,160
Product redesign initiatives	2,306	1,123	5,157	3,395
Foreign currency hedges	—	156	82	(621)
Share-based compensation	826	653	2,360	1,785
Discontinued operations income	—	—	—	(61)
Other	86	(8)	47	(41)
Adjusted net income, non-GAAP	$ 18,329	$ 26,192	23,498	30,506
Less: preferred stock dividends	—	182	—	1,715
Adjusted net income available to common stockholders, non-GAAP	$ 18,329	$ 26,010	23,498	28,791

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

Reconciliation of Diluted EPS to Adjusted Diluted EPS

	Three Months Ended		Nine Months Ended	
	June 29, 2019	June 30, 2018	June 29, 2019	June 30, 2018
Diluted earnings per share	$ 0.55	$ 0.77	$ 0.47	$ 0.55
One-time charge adjustments, net of tax benefit or expense	0.14	0.15	0.40	0.52
Adjusted diluted earnings per share, non-GAAP (1)	$ 0.69	$ 0.92	$ 0.87	$ 1.07
Weighted average dilutive shares outstanding (2)	26,720,110	28,556,914	26,920,285	28,600,959

(1) Numerator is adjusted net income, non-GAAP

(2) Weighted average dilutive shares outstanding excluded 2,791,468 shares for the nine months ended June 30, 2018 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

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.

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.



END

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