Blue Bird Corporation

(Nasdaq: BLBD)

Fiscal 2020
Second Quarter Results

Earnings Conference Call

May 14, 2020



BLUE BIRD®

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**
- **FY2020 Outlook**
  - **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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State of Business is Strong Despite Uncertainty

Blue Bird

- Delivered strong 2Q financial results
  - Significant growth in volume, net sales revenue and average selling price
  - Maintained alternative-fuel leadership with record 2Q sales mix
  - Progressing transformational initiatives to drive down cost
- Suspended production for three weeks due to COVID-19; reopened 4/20
- Classified as “essential business”; business continuity is priority
- Deployed strict COVID-19 counter-measures to protect employees
- Increased liquidity through $42M increase in revolver (to $142M)
- Implemented cash-preservation actions
- Filled production slots through June; now filling July

Industry/Market

- School shutdown and shelter-in-place delayed orders from mid-March
- Pent-up demand with anticipated order surge beginning in June
- Supply chain disruptions appear to be easing
- FY2020 industry outlook reduced by about 10-12%, to 30-31k buses

Well prepared to manage uncertain outlook; withdrawing guidance

Strong 2Q Financial Results

- **Achieved second highest 2Q profit in more than 10 years, despite incurring costs of about $3M due to COVID-19**
  - **Adjusted EBITDA of $12.7M, $0.5M above last year**
  - **Seventh consecutive quarter of increased Adjusted EBITDA over prior year**
  - **2,594 buses sold, 14% above last year**
  - **Total Net Sales of $255.4M, 21% above last year**
  - **Average-bus selling price was 7% higher than last year**
  - **Adjusted free cash flow was $38.2M, an increase of $24.7M over last year**
  - **Adjusted Net Income of $2.8M and adjusted Diluted EPS of 10 cents, down $1.1M and 5 cents, respectively, from last year**

- **Blue Bird delivered its operating commitments**
  - **Record 2Q sales mix for alternative-fuel powered buses at 49%, up 7 pts**
  - **Industry pricing taken in late FY2019 is holding, in line with expectations**
  - **Transformational initiatives to improve cost structure are on track**
  - **Liquidity at end of 2Q was $97.2M. Completed a credit amendment with our banks in May, increasing our revolver from $100M to $142M**

Significant improvement in financial results across all business elements, despite cost impact of COVID-19

1H and 2Q Financial Results

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Bus Sales

1H	2Q
$373.5M	$238.7M
Up $39.2M	Up $43.6M

Total Net Sales

1H	2Q
$408.6M	$255.4M
Up $42.1M	Up $43.8M

Parts Sales

1H	2Q
$35.2M	$16.7M
Up $2.9M	Up $0.1M

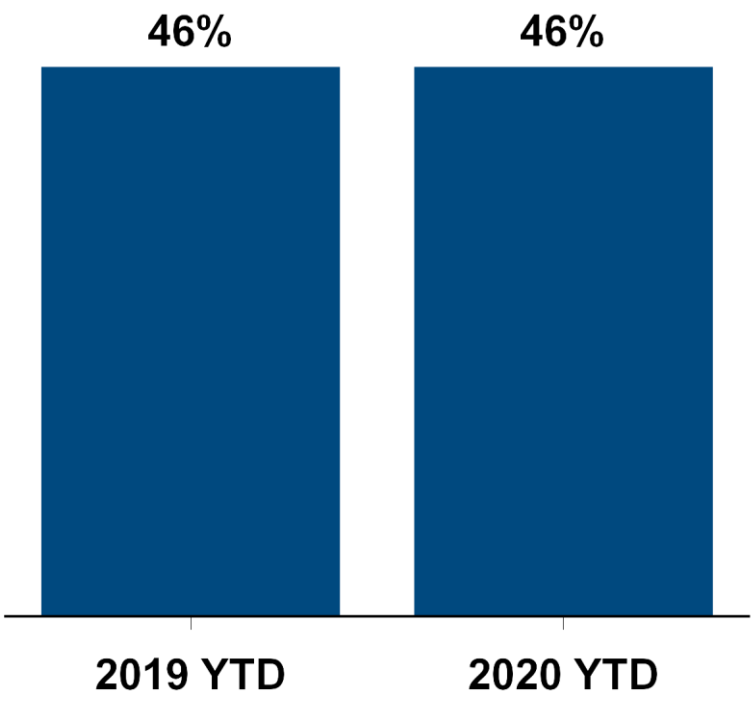
Adj. EBITDA[1]

1H	2Q
$20.7 Million	$12.7 Million
Up $1.3M	Up $0.5M

Our 2Q results were positive; key is to maintain strong liquidity and drive continuous improvement in costs for the balance of the year

[1]See appendix for additional detail regarding Adjusted EBITDA

Alternative-Fuel Leadership



FY2020 YTD Highlights

- Alt-Fuel mix at 46%, equal to prior year
- ~65% market share fiscal year through March
- 216 new Alt-Fuel customers added
- 99 conquest customer added
- 130+ electric buses booked and in backlog

Opportunities

- VW mitigation funds
  - 50 states have finalized mitigation plans
  - Approximately $600M has been carved out for school buses, of which $150M spent
  - 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

POWERED BY PROPANE · POWERED BY CNG · POWERED BY ELECTRICITY · POWERED BY GASOLINE

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 5/11

COVID-19 Impact on FY2020 School Bus Business

- **School Closings – first closing was on March 15 and by the end of March over 90% of US states and Canadian provinces had closed their schools. Only 6 states and provinces have announced re-openings in May**

- **Impact on Orders for New Buses – school closings resulted in disruptions to normal business and significant delays in bus orders from mid-March to present**
  - **Transportation and purchasing staff largely confined to home**
  - **Service operations in most school districts substantially reduced**
  - **School Board meetings initially eliminated or postponed**
  - **School Boards now increasingly meeting, but focused on at-home learning and school reopening, causing delays in approvals for new school buses**

- **Reassessment of FY2020 Industry Outlook – with states reopening and shelter-in-place restrictions being lifted, we expect to see school-bus transportation staff increasingly active and focused on bus needs for school start**
  - **We expect the present slow order rate to continue through end of May**
  - **From June, we forecast an increase in bus orders to address school-start needs**
  - **The delay in orders will reduce the FY2020 industry by ~10-12%, to 30-31k bus sales**
  - **We anticipate "catch-up" school bus orders will be delivered in 1Q FY2021**

With so much uncertainty, we are withdrawing guidance at this time

Business-Continuity Response to COVID-19

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Employee Safety & Well-Being

- Implemented protocols to ensure safe workplace
- Suspended production for three weeks
- Working with Georgia National Guard to have all Blue Bird employees in Georgia tested for COVID-19

Supplier Continuity

- Working with key suppliers to ensure supply of critical inventory for plant re-opening and ongoing continuity
- Added additional suppliers where required

Operational Response

- Took austerity measures to preserve liquidity
- Continued capital investment in key programs
- Suspended production for three weeks; employees furloughed
- Increased liquidity through revolving credit facility

Managing through pandemic and maintaining business continuity

Transformational Initiatives Drive Down Cost

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FY2018

Phase 1

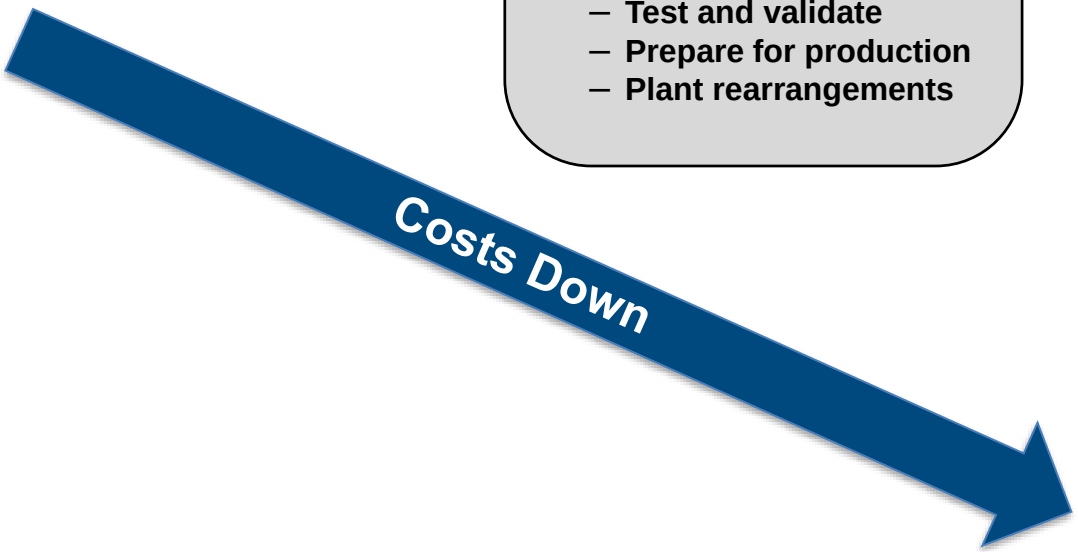
Purchased Material
- Commercial
- Sourcing

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
- Single Shift Production

Despite COVID-19, 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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2Q Results – Summary

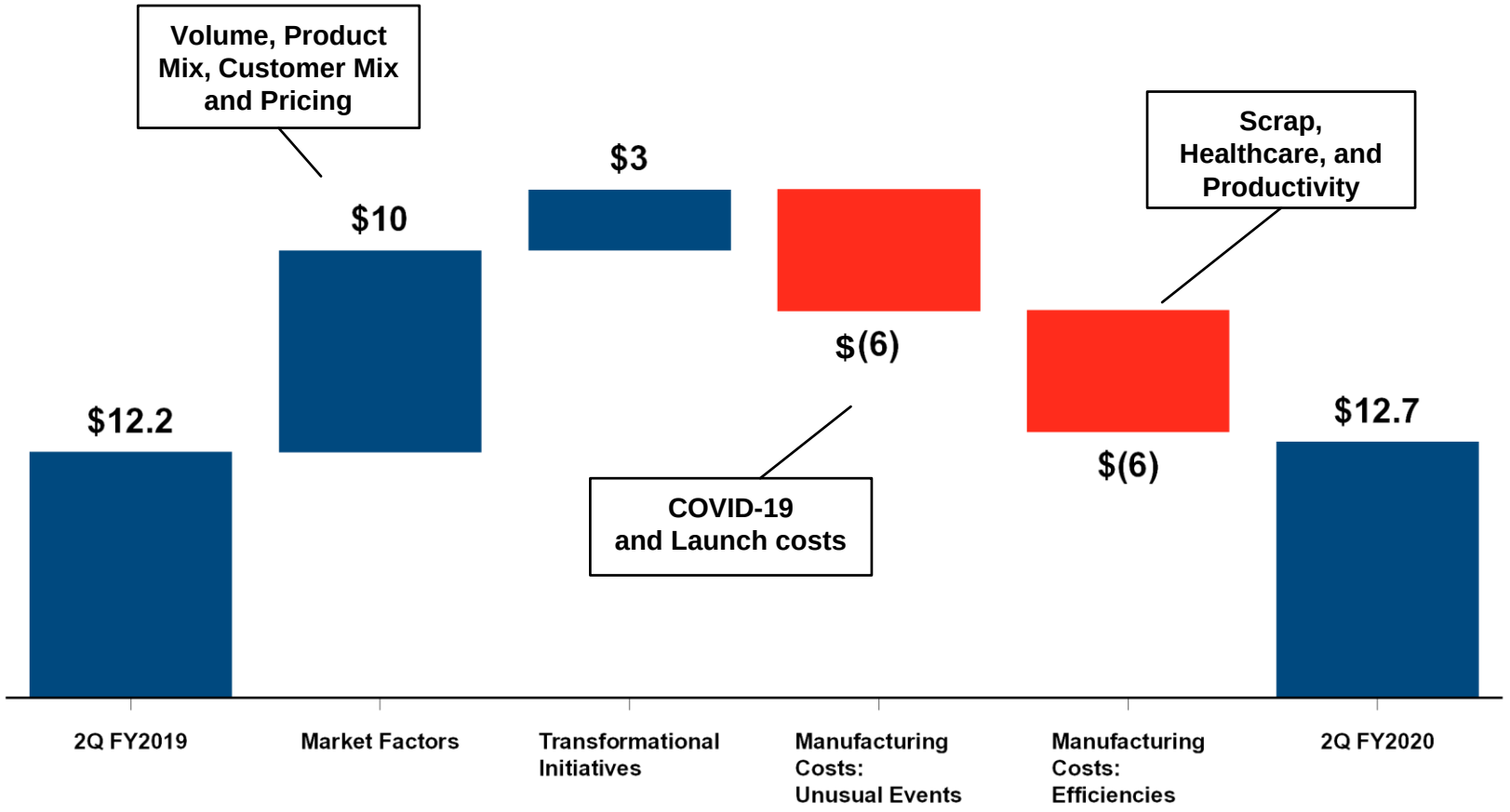
($ Millions unless noted)	2Q FY2020	2Q FY2019	B/(W)
Unit Volume	2,594	2,271	323
Net Revenue	$255.4	$211.6	$43.8
Bus Rev./Unit ($000's)	*$92.0*	*$85.9*	*$6.1*
Gross Margin	9.5%	12.3%	(280) bps.
Net Income	$(0.6)	$(0.7)	$—
Adj. Net Income[1]	$2.8	$3.9	$(1.1)
Adj. EBITDA[1]	$12.7	$12.2	$0.5
Adj. EBITDA Margin	5.0%	5.8%	(79) bps.
Diluted EPS ($'s)	$(0.02)	$(0.03)	$0.01
Adj. Diluted EPS[1] ($'s)	$0.10	$0.15	$(0.05)
Cash	$34.1	$25.6	$8.5
Debt	$208.6	$209.9	$1.3

Strong profit and revenue growth;
Gross Profit Margin impacted by COVID-19 and unusual manufacturing costs

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

2Q FY2019 to FY2020 Adj. EBITDA Walk

($ Millions)



Improved market-related factors and cost reductions through Transformational Initiatives drive higher profits, despite unusual events (including COVID-19) impacting manufacturing and lower efficiencies

[1]See appendix for additional detail regarding Adjusted EBITDA

FY2020 Free Cash Flow

($ Millions)	2Q FY2020	2Q FY2019
Adjusted EBITDA	$ 12.7	$ 12.2
Cash Paid for Interest (Net)	(2.6)	(2.6)
Trade Working Capital[1]	36.4	5.0
CAPEX	(5.0)	(11.9)
Cash Taxes	(0.3)	(2.3)
Other[2]	(3.0)	13.1
Adjusted Free Cash Flow	$ 38.2	$ 13.5
Operational Transformation Initiatives/Other	(1.1)	(3.3)
Product Redesign	(4.2)	(0.7)
COVID 19	(0.1)	-
Free Cash Flow	$ 32.8	$ 9.5

[1] Inventories, accounts receivable and accounts payable

[2] Accrued expenses and other receivables

2Q FY2020 Adj. Free Cash Flow was $24.7M better than 2Q FY2019 primarily reflecting a normalization of Trade Working Capital

Improving Net Debt, Leverage & Liquidity

($ Millions)	As of April 4, 2020
Debt	$208.6
Cash	34.1
Net Debt	$174.5
Net Debt / Adjusted EBITDA	2.1x
Net Leverage Ratio Compared with minimum bank Net Leverage Ratio covenant of 3.75x	2.4x
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.
Secured an additional $41.9M of capacity on Revolving Credit Facility



Phil Horlock
President & CEO

FY2020 Outlook

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FY2020 Outlook – Confident but Economy Uncertain

- As 2Q results showed, Blue Bird's business fundamentals remain strong – increased bus selling price, lowered cost and achieved higher mix of alternative fueled-buses
- Demand for new school buses remains high with 25% of US and Canadian fleet aged 15 years or older; limitation is funding capability and outlook is uncertain at this time
- Action taken to protect employees has lowered production capacity through June but meets present lower incoming-order rate. Now filling July production slots
- School transportation staff now returning to work and planning for school start. We expect surge in 4Q demand in support of school start. 3Q will be most difficult quarter
- Strong 1Q FY2021 expected with late orders causing delivery beyond school start
- Like most public companies dealing with these uncertain times, we are withdrawing guidance. As states and provinces open up and people return to work through May and into June, we will have better clarity on the outlook and will advise accordingly
- FY2020 school bus industry forecast reduced by 10-12%, to 30-31k buses
- Taking ongoing actions to adapt and restructure the business accordingly. Moving to single-shift production from June 1, improving cost, efficiencies and quality

Strong liquidity and business fundamentals.
Well positioned to handle uncertainty caused by pandemic



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		Six Months Ended	
	April 4, 2020	March 30, 2019	April 4, 2020	March 30, 2019
Net loss	$ (639)	$ (673)	$ (1,042)	$ (1,893)
Adjustments:				
Interest expense, net (1)	5,754	4,102	7,747	7,070
Income tax benefit	(817)	(179)	(1,143)	(415)
Depreciation, amortization, and disposals (2)	3,816	2,833	7,354	5,240
Operational transformation initiatives	2,198	3,270	3,312	3,514
Foreign currency hedges	—	—	—	109
Share-based compensation	1,204	1,193	2,297	2,045
Product redesign initiatives	1,082	1,652	2,092	3,801
Costs directly attributed to the COVID-19 pandemic	107	—	107	—
Other	—	4	6	(53)
Adjusted EBITDA	$ 12,705	$ 12,202	$ 20,730	$ 19,418
Adjusted EBITDA margin (percentage of net sales)	5.0%	5.8%	5.1%	5.3%

(1) Includes $0.1 million for both three-month fiscal periods and $0.2 million for both six-month 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 three-month fiscal periods and $0.4 million and $0.3 million for the six months ended April 4, 2020 and March 30, 2019, respectively, 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		Six Months Ended	
	April 4, 2020	March 30, 2019	April 4, 2020	March 30, 2019
Net cash provided by operating activities	$ 37,779	$ 21,436	$ (48,209)	$ (26,772)
Cash paid for fixed assets	(4,964)	(11,919)	(14,251)	(22,706)
Free cash flow	$ 32,815	$ 9,517	$ (62,460)	$ (49,478)
Cash paid for product redesign initiatives	(4,197)	(740)	(7,577)	(2,586)
Cash paid for operational transformation initiatives	(1,084)	(3,270)	(2,198)	(3,514)
Cash paid for costs directly attributed to COVID-19	(107)	—	(107)	—
Adjusted free cash flow	38,203	13,527	(52,578)	(43,378)

Adjusted EPS Reconciliation

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Reconciliation of Net Loss to Adjusted Net Income

(in thousands of dollars)	Three Months Ended		Six Months Ended	
	April 4, 2020	March 30, 2019	April 4, 2020	March 30, 2019
Net loss	$ (639)	$ (673)	$ (1,042)	$ (1,893)
Adjustments, net of tax benefit or expense (1)				
Operational transformation initiatives	1,649	2,453	2,484	2,636
Product redesign initiatives	812	1,239	1,569	2,851
Foreign currency hedges	—	—	—	82
Share-based compensation	903	895	1,723	1,534
Costs directly attributed to the COVID-19 pandemic	80	—	80	—
Other	—	3	5	(40)
Adjusted net income, non-GAAP	$ 2,804	$ 3,916	4,819	5,169

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

Reconciliation of Diluted EPS to Adjusted Diluted EPS

	Three Months Ended		Six Months Ended	
	April 4, 2020	March 30, 2019	April 4, 2020	March 30, 2019
Diluted loss per share	$ (0.02)	$ (0.03)	$ (0.04)	$ (0.07)
One-time charge adjustments, net of tax benefit or expense	0.12	0.18	0.22	0.26
Adjusted diluted earnings per share, non-GAAP	$ 0.10	$ 0.15	$ 0.18	$ 0.19
Weighted average dilutive shares outstanding (1)	26,976,324	26,915,502	26,885,398	27,023,021

(1) Weighted average dilutive shares outstanding for the three months ended April 4, 2020 and March 30, 2019 excluded 109,502 and 320,222 shares, respectively, and excluded 217,538 and 573,949 shares for the six months ended April 4, 2020 and March 30, 2019, 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

BLUE BIRD

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; (iii) discrete expenses related to major cost cutting initiatives; or (iv) costs directly attributed to the COVID-19 pandemic. 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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