



June 15, 2022

Crag Morneau
Director of Fleet Facilities
London Transit Commission
450 Highbury Avenue North
London, ONT N5W 5L2

SENT VIA EMAIL

Subject: 2022 Contract Price Adjustment for SR-2699 and SR-2700 London Transit
Purchase Order Numbers: 95473 & 93608

Dear Valued Customer,

The purpose of this letter is to inform you of a 7% price increase by New Flyer and Motor Coach Industries on existing contracts for all vehicles with a delivery date of July 1, 2022, and onward. As previously communicated, our business has experienced unprecedented disruptions from the COVID-19 pandemic and resulting global supply chain and logistics disruptions, political unrest in Eastern Europe, and now momentous and continuously increasing costs.

Across the past number of months, inflation has been extreme for North America and beyond, whether it is fuel, groceries, consumer goods (such as electronic devices or even cars and trucks), along with countless other economic sectors. New Flyer and MCI have experienced the same extreme inflation, impacting the cost to build buses that were originally costed during periods of normal and predictable inflation to create competitive bid prices to our valued customers.

We provide firm contract bus pricing based on supplier quotes to meet customer options and specifications, supplier price contracts, and anticipated inflation for other lower value components and commodities. While we accept the risk for moderate unexpected supply increases, the current cost escalation has created an untenable situation that is unfortunately forcing us to impose this price increase on current contracts that have not yet had recent PPI1413 adjustments. These are very difficult discussions, especially for contracts that are already signed, and funded through fixed capital budgets during very challenging economic times for our valued customers as well. The decision to move forward with price increases is not taken lightly.

Contributing factors stemming from recent rapid inflation that we are experiencing include:

- Raw material shortages and resulting severe price escalation
- Price increases and surcharges from major component suppliers above quoted and contracted pricing under force majeure notices
- Delays, shortages, and exorbitant premiums paid on the broker market for microchip and electronic component supply to assist our suppliers in delivering product
- Escalating freight costs related to fuel surcharges, expediting fees, and ocean freight and port congestion

All parts and components come from raw material whether used in chassis structures, fiberglass, plastics, hardware, and more. Commodity pricing indicates raw material pricing paid by New Flyer, MCI, and our suppliers. A few examples:

- Carbon steel (such as chassis structure) is 71% higher than the 5-year average,
- Copper (used to move coolant and other fluids) is 43% more than 5-year average,
- Resins (used in fiberglass) is 30% more than 5yr average, and
- A detailed commodity pricing matrix is included.



Due to rapid inflation occurring right now, many suppliers are informing us through force majeure notices that they cannot honor contract quotes and pricing agreements, and unless we modify our purchase orders immediately, products will not be delivered for your vehicles.

The global shortage of microchip and electronic supply has forced both us and our suppliers to secure these sub-components through irregular broker market purchases at extreme premiums that are 10 to 30 times regular prices (for example, we recently paid \$600 per microchip when normal purchase price is \$20 per microchip, 7-12 of these microchips are used per vehicle), to ensure supply continuity of critical electrical systems for our customers.

New Flyer, MCI, and our suppliers have experienced freight and fuel costs well in excess of normal and expected inflation. The U.S. Department of Labor has PPI industry data for general freight trucking, long-distance TL (truck load), indicating that the last 12 months inflation increase is 39.6% due to fuel, freight, container costs, etc. A copy of the detailed inflation rates for this is included.

The above widespread cost increases related to bus and coach manufacturing have started to translate to the U.S. Bureau of Labor Producer Price Index WPU1413 Bus and Truck Bodies, our industry's typical mechanism for price adjustments. **The index, which lags actual cost inflation, has experienced a 14% increase over the last twelve months as of April 2022. This same index averaged a 1.9% annual increase from January 2013 to April 2021.** The inflation rate noted above in the U.S. Bureau of Labor is very much indicative of the impact New Flyer and MCI continue to experience. A copy of the chart is included.

Please be assured, we deeply understand the difficulties both schedule delays and cost overruns create for your organization and would not be reaching out for your support if we did not have to. Simply put we cannot bear the burden of the global supply chain crisis alone. We are not intending to recover all the inflation we have experienced through this price increase. Instead, we are establishing the price increase at 7% based on an equitable sharing of the financial impact.

Please note, as a result of the pandemic NFI Group Inc. ("NFI") has experienced a net loss of \$172M through 2020 and 2021. While we cannot share specific forecasts for 2022, we will again realize a very significant net loss even after this additional 7% price increase.

Members of the New Flyer and MCI Sales and Customer Care team will be reaching out to schedule a conversation as we seek a contract modification. We are truly grateful for your ongoing business, and your understanding of this challenging, unique, and unprecedented economic situation.

Sincerely,

A handwritten signature in blue ink that reads "Chris Stoddart".

Chris Stoddart, President
North American Bus and Coach

Cc: Greg Cherneski

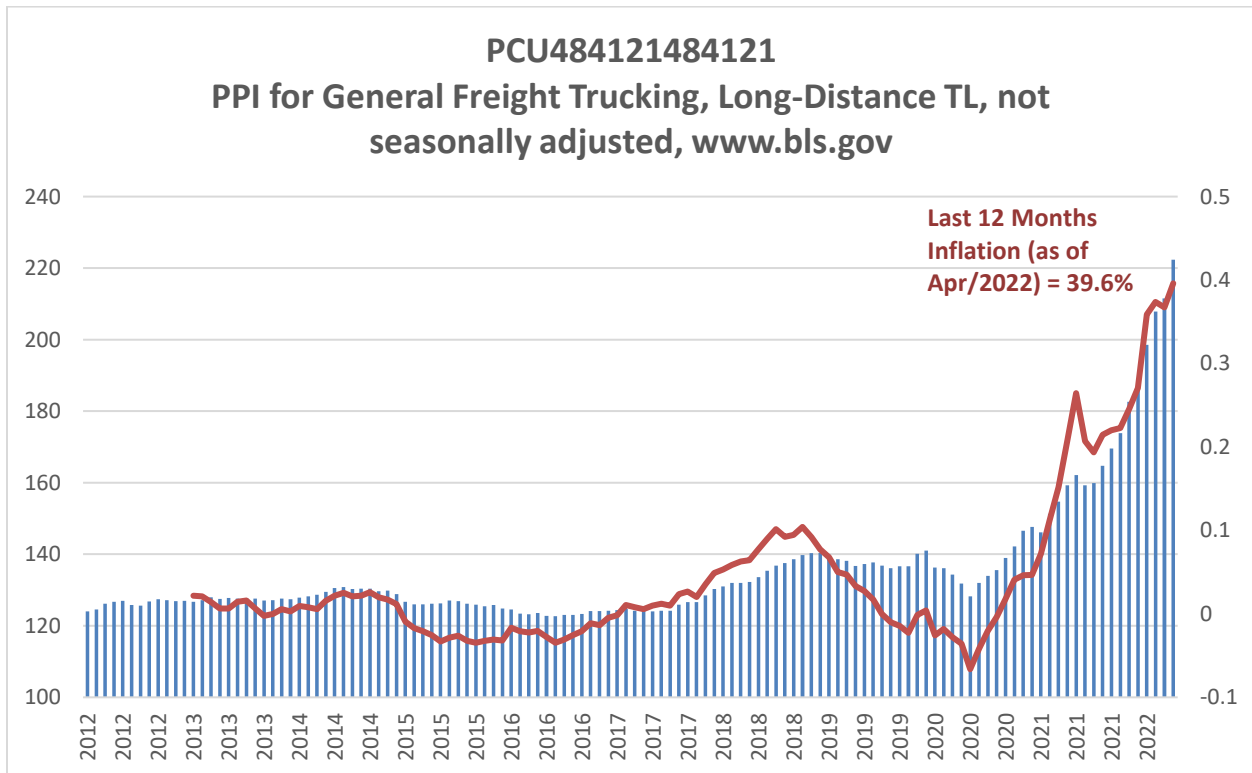
Encl – Supporting Data Included on Next Two Pages

Supporting Data (Pg 1 of 2)

Commodity Pricing (per Publicly Published Market Indices)

Commodity	Current Cost (\$USD)	5yr Average Cost (\$USD)	% Increase vs. 5-Year Average
Carbon Steel (per LB)	\$0.72	\$0.42	71%
Stainless Steel (per LB)	\$2.70	\$1.33	103%
Copper (per LB)	\$4.40	\$3.08	43%
Aluminum (per LB)	\$1.38	\$0.91	52%
Resins	\$317.24	\$243.39	30%
ABS Extrusion Material	\$1.88	\$1.11	69%
ABS Injection Material	\$1.85	\$1.08	71%
Flat Glass (index)	\$134.76	\$113.91	18%

General Freight Industry Producer Price Index (PPI) per US Bureau of Labor



Supporting Data (Pg 2 of 2)

Truck and Bus Body Producer Price Index (PPI1413) per US Bureau of Labor

