Digging Deeper Into Westport Innovation’s Key Joint Ventures

Description

Westport Innovations (Nasdaq: WPRT)(TSX:WPT) CFO Bill Larkin recently sat down with The Motley Fool’s Brendan Byrnes for a wide-ranging conversation about Westport’s business.

In the following clip, Larkin gives us a glimpse into Westport’s joint ventures with **Cummins** (NYSE: CMI) and **Weichai**. The Cummins relationship has enjoyed great margins and upwards of 30% growth in recent years, while Weichai has grown 100%-200% year over year and is focused on capturing market share. (Run time: 3:04; a transcript is provided below. If you’d like to view the entire interview, click here.)

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Brendan Byrnes: Let’s take a look at your joint ventures. You have Cummins, which you talked about earlier. Also **Weichai** — hope I got that right …

Bill Larkin: Yes, that’s correct.

Brendan: … in China. Could you explain both of those? Why you partnered with them, and the metrics that you use to evaluate those?

Bill: Sure. As we talked about earlier, we started off with CWI. Our joint venture with Weichai is very, very similar to our CWI relationship, our joint venture.

It’s what we call “spark-ignited technology.” What it is — we’re running natural gas. It runs 100% natural gas, but instead of using compression to ignite the fuel we’re using a spark plug, just like in our vehicles.

Very similar family of engines — anywhere from a 5-liter up to a 12-liter — within CWI and then also in Weichai. But when we look at performance, if you look at the historical performance of CWI it’s been growing at 30%-plus, on the top line, over the last several years; [and has] great margins.

What's driving those margins is we don't have to invest in plant, property, equipment, machinery. We are leveraging the existing footprint within the Cummins organization, so it's a highly leveraged organization in which, as we continue to drive growth in the revenues, we can drive substantial growth in our bottom line.

Weichai is very similar. Weichai produces all the engines. All we're doing is just final assembly within their dedicated factory. Same engine portfolio, but as everyone has seen, yes the margins are quite a bit different than what we see within CWI.

There's a couple of drivers. Whenever you see growth of 100%-200% year over year, you are going to have production inefficiencies; you're going to have inefficiencies within your supply chain. To support that growth, that's driving down our margins.

But also, there's a market capture strategy there. As we know, in China we're seeing rapid adoption of natural gas for transportation purposes. If you look at last year, they did over 20,000 engines, and in the first quarter we did over 8500 engines, so we're seeing rapid growth.

They've implemented a market capture strategy. They wanted to go after the transit markets, which another competitor dominates, so they consciously reduced the pricing on the lower engine displacements to go after that market, and that's driving down margins.

Now, will we continue that? It's still to be determined. We have to evaluate how well that strategy is working. Hopefully over time we'll start seeing improvements in margins as things stabilize and steady from a production and supply chain standpoint, and as we reevaluate our market capture strategy.

The Motley Fool owns shares of Cummins and Westport Innovations.

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1. Investing

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1. NASDAQ:WPRT (Westport Fuel Systems Inc.)
2. NYSE:CMI (Cummins Inc.)

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