



## 3 Keywords to Watch in Westport Innovations Inc.'s Earnings Report

### Description

It's going to be one of the most crucial reports for investors when **Westport Innovations Inc.** (TSX:WPT)([NASDAQ:WPRT](#)) releases its fourth-quarter and financial year 2015 numbers after market close on Tuesday.

First, the delay in the earnings release has been unnerving, raising concerns that the company may have some bad news to offer. Second, the first quarter of 2016 is drawing to a close, but investors are still awaiting Westport's guidance for the year.

So what should investors expect? Here are the three keywords you need to keep an eye on in Westport's earnings report.

### Merger

What was uncertain until Westport's last earnings release is a confirmation now. The company is merging with **Fuel Systems Solution Inc.** (NASDAQ:FSYS) to become Westport Fuel Systems Inc. That brings up the big question: Will Westport will take longer to break even now that it is acquiring another loss-making company?

Investors must see if Westport sticks to its 2016 EBITDA (earnings before interest, taxes, depreciation, and amortization) guidance this week. Westport last projected it would turn adjusted EBITDA positive by mid-2016 after its adjusted EBITDA losses narrowed by 57% to US\$26.7 million during the nine months ended September 30, 2015.

While adjusted EBITDA is a non-GAAP measure, hitting its goal could be considered the first confirmed signs of Westport's turnaround.

### Cash

Rapidly depleting cash is one of the biggest yellow flags on Westport's balance sheet. As of September 30, 2015, Westport held only US\$42.1 million in cash, cash equivalents, and short-term investments versus US\$168.8 million as of September 30, 2014.

Here, investors need to watch for two updates in Westport's upcoming earnings report. Look for the amount of immediate cash that Westport's merger with Fuel Systems will add to its kitty and see if Westport can continue to reduce its operating expenses after lowering them by an impressive 27% during the nine months ended September 30, 2015.

Also, if Westport can hit positive adjusted EBITDA this year, it'll indicate a greater cash flow from its core business, which should further prevent cash burn.

## China

Westport's path to profitability will only become tougher if the situation in China doesn't improve soon. Westport has substantial exposure to the market through its joint venture with Weichai Power, which is also one of its key sources of income today, besides its venture with **Cummins**.

If Weichai-Westport's revenue tumbled 76% during the nine months ended September 30, 2015, Cummins's projections of a further decline in the demand for trucks in China this year will only add to Westport's concerns. In other words, any hint of caution about China in Westport's report could indicate greater pain ahead for the company.

Of course, the biggest threat to Westport's growth remains lower oil prices. Unfortunately, that isn't under the company's control, which is why its efforts to stay afloat matter so much now; and that's exactly what investors need to keep an eye on.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NASDAQ:WPRT (Westport Fuel Systems Inc.)

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