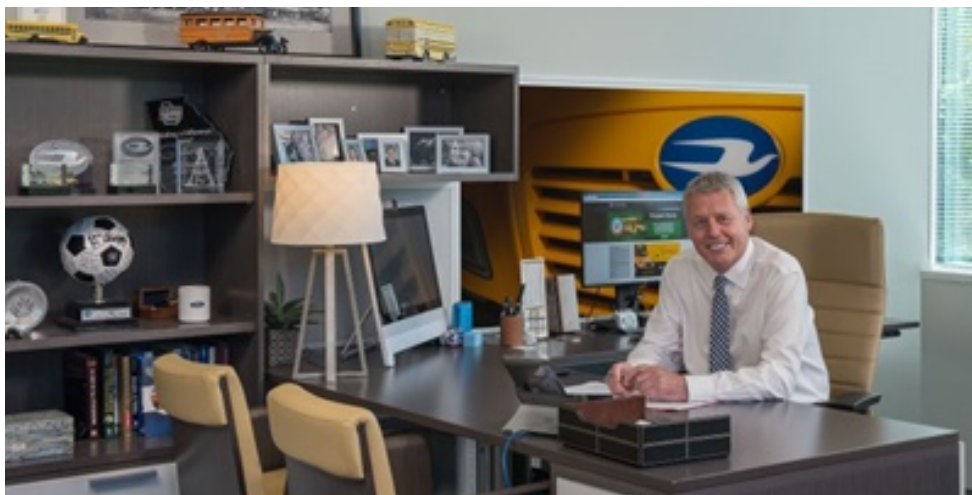




Interview with Phil Horlock

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Phil Horlock Points to Strong School Bus Sales, Despite Impact of Steel Tariffs

By [Thomas McMahon](#) published by schoolbusfleet.com

New tariffs on steel and other raw material price hikes have increased the cost of building school buses, but Phil Horlock sees a strong market for the yellow bus in 2018 and beyond.

The president and CEO of Georgia-based Blue Bird Corp. says that the funding picture looks good, with healthy property tax revenue and more grants becoming available — most notably, the Volkswagen (VW) Environmental Mitigation Trust, which will provide states with \$2.9 billion to cut nitrogen oxide (NOx) from large vehicles. Those funding sources will help meet high demand to replace old school buses with new, low-emission models.

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Meanwhile, Blue Bird's sales of non-diesel large school buses — propane, gasoline, compressed natural gas (CNG), and electric — now account for nearly 40% of the manufacturer's output, and Horlock sees more alt-fuel growth ahead.

The Blue Bird leader shares these and other insights in this exclusive interview with *School Bus Fleet*.

SBF: What's your assessment of the market conditions in the school bus industry right now?

Phil Horlock: I'd have to say overall, it's a strong market. Just look at 2018 – it's the second-highest industry in the last 30 years for Type C and D school bus sales. When you consider that the principal funding mechanism for new school buses is property taxes, it's no surprise that the industry outlook is strong as property values continue to rise.

One other factor is the age of the school bus fleet. When you look at the approximately 550,000 large school buses on the road today, there are 150,000 of those still over 15 years of age. So customer demand and interest in replacing them is extremely high, with the obvious limitation being the pace of funding availability. The point here is that the desire to replace old buses is not slowing down.

Also, we have funds now [becoming available](#) from the VW settlement. We should see the first tranche of those funds being released to states as we move through 2019. Whatever school buses end up receiving from the \$2.9 billion that's been allocated to the transportation sector, we'd expect it to ultimately be a little boost to the industry. So overall, I feel good about the industry outlook right now.

The news this year has been filled with talk of tariffs and trade wars. Is any of that having an effect on school bus manufacturing?

In our last earnings call, we mentioned that we've seen a significant increase this year in commodity prices, led by steel. Freight costs and other commodities are up too. Obviously, there's a lot of steel in a school bus, so we're seeing that cost increase in our production costs. In fact, we had to increase prices on our buses in late 2018, because we just couldn't contain the cost increases we were experiencing. Hopefully, we will see some government policy changes on tariffs in the near future, and steel and other commodity prices will settle back to a more normal level.

“When I look at propane, compressed natural gas, gasoline, and electric now, we feel very bullish about that. Almost 40% of our bus sales this year are non-diesel.”

*Phil Horlock, president and CEO
Blue Bird Corp.*

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Earlier this year, Blue Bird and Roush CleanTech extended their alternative-fuel partnership through 2025. Tell us about how the partnership has been working and why you opted to extend it for another seven years.

You look at Roush CleanTech and the Roush Corporation in general, and they're a fantastic partner. They're a skilled engineering company that understands automotive requirements very well, with particularly deep skills in engine systems, and are incredibly customer-focused. We know them well, our goals are aligned, and along with the third leg of that stool, Ford Motor Company, we have a true three-way partnership that we value. I'm proud that our partnership has brought class-leading, cost-efficient, reliable and durable engine offerings to the market – propane, gasoline and compressed natural gas that all use the same Ford engine architecture – that have been very well-received by our customers. We just think it's a great partnership, where we are all committed.

And I like exclusivity; I like to be different. I want us to offer things that are unique in the marketplace. When we have an exclusive relationship like this, we put 100% into it, and so do Roush CleanTech and Ford. In fact, just a few weeks ago we held a meeting with the entire Roush CleanTech and Ford partnership team here in Macon [Georgia], discussing future plans together and where we're going. It was energizing! We're in our ninth year working together, and quite frankly, I couldn't ask for a better partner. It was an easy decision for us to extend our contract with Roush CleanTech.

As you look ahead to 2025 or just the next few years, what are your expectations for alternative fuels in the school bus market?

In our business, we think of alternative fuels as being the alternatives to the staple product — which has been diesel for so many years. At Blue Bird, we've seen tremendous growth in this segment of the business, with double-digit percentage increases for several years, significantly outpacing the overall industry growth. So, when I look at the potential for growth in propane, gasoline, compressed natural gas, and now electric-powered buses, I'm bullish about the growth outlook, particularly for Blue Bird. Almost 40% of our bus sales this year are non-diesel, and with over 80% market share in this segment, we're very proud of that fact. So when we look at that 40% level, there's no reason why that couldn't be over 50% just a few years down the road.

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Our propane-powered bus has led our alternative-fuel growth that we've seen in recent years. The low cost of ownership of a propane bus is a perfect fit for the school bus industry. Fuel costs are low and maintenance is simple with no need to worry about maintaining expensive exhaust after-treatment systems and replacing DEF [diesel exhaust fluid]. And you don't need to worry about regenerating the engine. I think customers want simplicity, and the TCO [total cost of ownership] message and cold weather start capability all resonate.

We're very excited about our [latest propane engine](#), which operates at an NOx level of 0.02 grams per brake horsepower-hour — that is one-tenth of the NOx level that our competitors offer. We already had the industry-leading 0.05 grams NOx level engine out there for the last 12 months, but we wanted to bring an ultra-low NOx solution to the market. That's a huge benefit to the environment, our customers, and our students.

We recently delivered our [first electric-powered school buses](#) to customers, too. So, with our propane, CNG, and now electric school buses, we offer by far the broadest range of zero to ultra-low emission engines in the school bus market. We expect growth in this segment of the business to continue to outpace the total industry.

Now, if you want a diesel engine, we offer great choices, too. We've partnered for years with the global leader in diesel engines, Cummins, the most recognized diesel brand in the industry. They're a great partner too, and we work closely together to ensure the engine and installation is optimized in a Blue Bird Bus. At the end of the day, we like to give our customers the best possible choices.

What has been the industry's reception to the gasoline Type C school bus?

It's been a great [success](#) for us and, quite honestly, it has exceeded our expectations. So why is that? Well, first of all, everyone is familiar with gasoline engines. People drive their gasoline cars and trucks every day and it's an easy product to operate and work on. In terms of sales, it's beaten the targets that we set, which we're very happy about.

Speaking to its advantages, first of all, it's a lower-priced product. There's a price gap between our gasoline and diesel buses. That's because it's simpler and doesn't have all the emissions hardware that you have with a diesel engine, and it's easier for technicians to service and maintain. We hear that all the time from customers.

It's outstanding in cold climates — it starts the first time and the cab heats quickly. No need to heat the engine block in freezing conditions, even in situations as low as minus 40 degrees Fahrenheit, which some of our northern customers deal with. We've found that customers initially try a few gasoline buses in their fleet, and then the second year, that same customer is ordering significantly more buses. So we've had a great reception to gasoline.

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What's the latest with Blue Bird's new electric school buses?

We first showed our Electric Type D bus to customers in the middle of 2017. We've been very busy since then, and shipped our first production units to customers in California in September. We have a solid order bank and a strong pipeline of quoted opportunities that we're looking forward to fulfilling in the coming months. Early next year, we'll be launching our Type C electric bus as well. I should also add that we delivered our first Type A Micro Bird electric bus in September, to a customer in Ontario, Canada.

The VW Settlement funds should open up opportunities across the country for customers to try electric buses, who otherwise couldn't afford them. We've completed almost 20 ride-and-drives nationwide, taking our electric buses to the road, letting folks try them. And that's where our pipeline of interest has come from.

Just like our propane, gasoline, and CNG partnership with ROUSH CleanTech and Ford, we have an exclusive contract with our electric bus partners, Adomani and EDI, who, incidentally, was recently acquired by Cummins. We like those arrangements, where we can offer unique and differentiated products to our customers.

What other changes do you see ahead in the coming years for the school bus industry?

Well, obviously, continued growth in alternative fuels comes to mind. I think we're going to see more of that going forward — more demand for cleaner products, zero and ultra-low emissions — and we want to be at the cutting edge of that.

I think more use of electronics to benefit drivers and to provide mechanics with improved diagnostic information will feature in buses. Over-the-air software upgrades to electronic systems should be expected, much like the software updates we see frequently with our phones. As an example of the deployment of these new technologies, we were the first school bus manufacturer to offer electronic stability control in our buses, when we introduced the option three years ago. It provides the driver with improved braking and assurance in harsh driving conditions and has been well received. And I think you're going to see more adoption of the advanced features we see today in cars and trucks, such as collision avoidance and lane assist.

There's a lot of talk around seat belt standardization. Of course, all manufacturers offer seat belts as an option and we're pleased to offer our new "convertible" seats with a seat-belt-ready feature. So, if you don't want seat belts today on your Blue Bird school bus, but in the future you do, you can just switch out the seat back for a new one that is fully equipped with three-point seat belts. I think that type of flexibility will be something you'll see more and more school districts adopting.

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*Phil Horlock, president and CEO
Blue Bird Corp.*

Are there any other new developments at Blue Bird that you’d like to discuss?

Well, we’re making some significant plant upgrades, including the installation of a brand-new, state-of-the-art body paint facility in Fort Valley. We’ve been manually painting buses since our inception back in 1927, and now we’re putting in a full robotic paint shop. We’ll be kicking off the launch of that early next calendar year and we’re very excited about it. We’re investing in product and we’re investing in quality.

I mentioned earlier our brand-new, seat-belt-ready seats, and they come with a host of other innovative features. The seat cushion folds up, which is great for maintenance and cleaning. It includes a lumbar support and has a head restraint built-in. Also, the rear of the seat has a concave inset, providing more legroom for the children. In many instances, because of the contoured back, we can actually put an extra row of seats in those buses. So it gives the customers extra seats in the same bus length that they’re used to. That’s innovation, bringing real value to a school district.

I’d be remiss if I didn’t mention the significant investment our Blue Bird dealers are making in our business. We have many dealers opening new dealership facilities and expanding their parts and service capability. That’s great news for us and even better news for our customers.

So is the new seat increasing the capacity of the bus?

Yes — not for every bus, but for many of our bus lengths and seating configurations, we’re able to provide an extra row of seats. So you can get another five passengers or so in a school bus, which is a great value.

We’ve got lots of new and innovative features in our product development pipeline, so stay tuned for those announcements. Our simple objective is to keep providing customers with innovative products and features that they want and value. We like being first to market and we like being different!

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