The Shyft Group

Fourth Quarter and Full Year 2023 Conference Call and Webcast

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CORPORATE PARTICIPANTS

Randy Wilson – *Vice President, Investor Relations*

John Dunn – *President and Chief Executive Officer*

Jon Douyard – *Chief Financial Officer*

PRESENTATION

Operator
Good morning, and welcome to the Shyft Group's Fourth Quarter and Full Year 2023 Conference Call and Webcast.

All participants will be in listen-only mode until the question-and-answer session of the conference call.

As a reminder, this call is being recorded. I would now like to introduce Randy Wilson, Vice President, Investor Relations and Treasury of the Shyft Group. Please go ahead.

Randy Wilson
Good morning, and thank you for joining us. I'm joined by John Dunn, President and Chief Executive Officer and Jon Douyard, Chief Financial Officer. Their prepared remarks will be followed by a question-and-answer session.

Before we begin, please turn to Slide 2 of the presentation for our safe harbor statement. Today's conference call contains forward-looking statements, which are subject to risks that could cause actual results to be, materially, different from those expressed or implied. Primary risks that management believes could materially affect our results are identified in our Forms 10-K and 10-Q filed with the SEC.

We'll be discussing non-GAAP information and performance measures, which we believe are useful in evaluating the company's operating performance. Reconciliations for these non-GAAP measures can be found in the conference call materials posted on our website.

We will start with opening comments from our CEO, John Dunn, before turning the call over to John Douyard for a review of 2023 performance as well as our 2024 outlook. We will then open the line for Q&A.

Please turn to Slide 3, and John Dunn will begin today's prepared remarks.

John Dunn
Thank you, Randy, and good morning to everyone. As I noted on our call back in October, I'm excited to be leading this fantastic company. Over the last 50 years, Shyft has grown to a national leader in many specialty vehicle markets, while consistently demonstrating the ability to innovate, partner with customers and maintain financial stability.

In past roles, I've delivered ambitious growth by focusing on building solid teams and driving commercial and operational excellence. I spent my career in the automotive sector with experience launching vehicles for General Motors and having senior leadership roles for Tier 1 auto suppliers, one of which grew annual sales from $50 million to $1.5 billion in North America.

I look forward to building on Shyft's great legacy and leveraging my experience to deliver a higher level of performance.

Having just completed my first full year at Shyft, including the last four months as CEO, I continue to be impressed by the industry-leading products and the team's capabilities. Together with the leadership team, we have defined an operating framework, which will serve as the foundation to drive sustainable financial growth and deliver value for our shareholders, going forward.

Our approach includes a relentless focus on building high-performing teams to foster collaboration and drive results, delivering operational excellence, improving efficiency in all aspects of the business while bringing innovative and high-quality products to our customers and keeping customers at the center of everything we do. From sales to design to delivery, we are here to enable our customers' success.

Shyft's recent performance has been impacted by end market demand softness, and we are acting with urgency to return the business to historical profitability.

As we transition to Slide 4, I will walk you through the actions we have taken over the past four months, which reflect this operating framework. It all starts with the team, and our immediate focus was on team alignment to drive operational rigor and financial growth.

We top-graded key roles, including production and sales leadership, to improve immediate performance and build bench strength.

We promoted Jacob Farmer into our FVS President role. He previously led our SV business. Jacob is a proven leader, and we are confident that he will continue to drive the necessary improvements already underway in FVS and utilize his experience within SV to strengthen coordination, across the company.

We look for better ways to enable our businesses to ensure that they had the appropriate tools and support needed to be successful. We have simplified our internal reporting rhythms and identified opportunities to push down functional support into the businesses where it is needed, most. An example of this is in our marketing function, which now reports directly into our segments.

Transitioning to operational excellence, we understand the importance of product quality and process efficiency, as well as sales force effectiveness and overall customer satisfaction. We are focused on improvements in all of these areas. In December, for the first time, we pulled together our sales team from across the company. We held product training and identified cross-selling opportunities.

Coming out of the sales summit, we adjusted our sales compensation structure to incentivize business with new customers and to establish targets for our sales team to sell all Shyft brands.

We have a portfolio of industry-leading products and need to make sure we are selling them, broadly, to the market. By taking a more comprehensive approach, we will expand our reach and diversify our customer base.

Operationally, we've identified opportunities, including deeper cross-company synergies and procurement and ways to optimize our footprint. I look forward to updating you on the output of these initiatives on our upcoming calls.

Another area of focus, given its strategic importance to Shyft and our customers, has been the Blue Arc EV program. I've spent time with the team validating the overall market opportunity, reviewing the project plan in depth and assessing our manufacturing capability. I'm impressed by the quality of the product, the robustness of the design and what the team has been able to accomplish.

I had direct conversations with our key customers who communicated their excitement for our Blue Arc vehicle and its role in their fleet strategy. After assessing progress and interest, we prioritized the Class 3 to 4 walk-in van as the most efficient path to getting Blue Arc to market. While we discussed other class sizes and vocations historically, we have refined our focus in 2024, which will drive lower spending versus 2023.

Now let's turn to Slide 5, and I'll give you more detail around the status of our Blue Arc program.

Our team continues to make solid progress on overall vehicle development, including the battery performance. We previously discussed battery quality issues impacting our ability to go into production. We worked with our supplier, Proterra, to solve the issues, until the recent purchase of Proterra by Volvo. Currently, we are exploring a new commercial agreement with Volvo.

In parallel, we accelerated the battery integration in our Class 3 to 4 vehicle with battery supplier, Our Next Energy. We recently completed performance testing and are pleased to confirm the vehicle range is over 200 miles. These results meet customer requirements and are consistent with our prior vehicle testing.

From a vehicle standpoint, we have finalized the design, and the first production and tank units have been manufactured in our Charlotte, Michigan facility. With the revised program time line, we expect final testing in the coming months to complete and start production in late 2024.

In conclusion, our team has built an outstanding vehicle. While there is more work to do, I am confident this will be a growth driver for Shyft. We will provide additional detail around Blue Arc as John Douyard discusses our outlook later in the presentation.

With that, I'll turn it over to him to discuss our financial results.

Jon Douyard
Thanks, John. Please turn to Slide 7, and I'll start with our full year 2023 financial results and highlights. Overall, 2023 was a challenging year for Shyft, as deterioration in the parcel and motorhome markets impacted overall performance. In the year, we delivered $872 million of revenue and $40 million of adjusted EBITDA, which was in line with our recent expectations.

Excluding the impact of EV expenses, our core business delivered adjusted EBITDA of $73 million, or 8.3% of sales. We delivered tremendous performance in our Specialty Vehicles business with 20% adjusted EBITDA margin for the full year, and we drove solid cash generation, allowing us to fund key growth initiatives, including Blue Arc.

Throughout the year, we flexed our operations, moving production between sites and adjusting headcount, as needed, in response to the decreased sales volume. Overall, we reduced head count by approximately 30% from the beginning of the year.

Despite the sales volume pressure, our team focused on driving cash flow and reducing working capital, resulting in free cash flow of $36 million, up $75 million versus the prior year.

Turning to Slide 8, I will now provide an overview of our fourth quarter financial results. Sales were $202.3 million, down 33% from $302 million in the prior year. Net loss of $4.4 million, or a loss of $0.13 per share, compared to net income of $17.8 million or $0.50 per share in the previous year. Fourth quarter 2023 results included a tax benefit of $4.8 million.

In the fourth quarter, adjusted EBITDA was $2.3 million, or 1.1% of sales, down from $30.7 million or 10.2% of sales in the fourth quarter of '22. These results include EV program spend of $9.3 million, up from $7.6 million in the prior year. Excluding these expenses, adjusted EBITDA was 5.7% of sales.

Adjusted net loss for the quarter was $0.9 million, while adjusted EPS decreased to a loss of $0.03 per share.

I'll now walk you through our results by operating segment on Slide 9. In the quarter, Fleet Vehicles & Services achieved sales of $119 million, down 44.1%, compared to $212.9 million, a year ago, reflecting softness in the last-mile delivery end markets. These results include $15 million of pass-through chassis revenue related to the USPS truck body program.

Adjusted EBITDA for the quarter was a loss of $2.6 million versus income of $27.7 million a year ago with lower profitability driven by sales volume and negative product mix, which includes the impact of the USPS pass-through sales. Adjusted EBITDA margin was negative 2.2% of sales, compared to 13% in the fourth quarter last year.

FVS backlog was $325 million at the end of the year, down 15% versus the prior quarter.

In Specialty Vehicles, our team closed out a strong year with another quarter of record profitability, as our infrastructure-focused vocational truck businesses continued to deliver solid growth and operational improvements, offsetting ongoing market weakness in motorhome chassis.

Fourth quarter sales were $83.4 million, a 10.6% decrease from $93.2 million in the prior year. Adjusted EBITDA was $19 million or 22.8% of sales, compared to $15.9 million, or 17.1% of sales in the same period, last year. SV backlog was $84.3 million at the end of the year, up 4% versus prior quarter.

Please turn to Slide 10 for our 2024 outlook. We continue to be excited about the long-term growth prospects of the company. Our focus and investment into infrastructure-related businesses is paying off, as reflected in the strength of SV's performance.

While the last-mile parcel delivery business has been soft recently, we continue to maintain a leading position and the long-term growth projections remain intact for the industry. As we enter 2024, we continue to take a cautious view on near-term demand for both, parcel and motorhome volume. And we expect the softness we experienced in the second half of 2023 to persist, likely through midyear.

In response, as John Dunn discussed earlier, our team is taking urgent actions both commercially by identifying cross-selling synergies and diversifying our customer base and on spending, including a focused approach to Blue Arc.

Given these factors and notwithstanding further changes in the operating environment, we are introducing our 2024 outlook as follows: sales to be in the range of $850 million to $900 million. While we plan for Blue Arc to be in production later this year, we've not included any revenue estimate or forecast, at this time. Adjusted EBITDA of $40 million to $50 million, including $20 million to $25 million of Blue Arc spending. Given the expected slow start to the year, we anticipate that first quarter adjusted EBITDA will be approximately breakeven. Adjusted EPS is expected to be in the range of $0.28 to $0.51 per share and free cash flow of $25 million to $35 million.

Before I close out this section, I would like to reinforce our core business's ability to generate cash. Over the last four years, through a challenging cycle, we have generated approximately $100 million of free cash flow while self-funding a transformational EV initiative and returning capital to shareholders.

Going forward, as our end markets recover, and with continued focus on working capital, we believe we are well positioned to generate cash flow and continue to confidently invest in our future.

With that, I will turn it back over to John Dunn for closing remarks.

John Dunn
Thank you, Jon. Turning to Slide 11. We have excellent core businesses with leading market positions, well-recognized brands and our customers rely on us, every day. We are preparing for the future with our Blue Arc EV truck and continue to offer innovative solutions to our customers. The team is acting with utmost urgency to deliver improved 2024 results. We are laser-focused on execution, efficiency and leveraging our internal strengths.

As Jon Douyard discussed earlier, our core businesses are excellent at generating cash through the cycle. Looking ahead, we've established a framework to drive improved performance at Shyft. Our experienced and highly engaged team is committed to creating value for our customers and shareholders. I'm very excited about Shyft's future and look forward to the years to come. Thank you.

And with that, Operator, we are now ready for the Q&A portion of the call.

QUESTION AND ANSWER

Operator
Yes, thank you. We will now begin the question-and-answer session. To ask a question, you may press “*”, then “1” on your telephone keypad. If you are using a speaker phone, please pick up your handset, before pressing the keys. If at any time your question has been addressed and you would like to withdraw it, please press “*”, then “2”.

At this time, we will pause, momentarily, to assemble the roster.

And the first question comes from Matt Koranda with ROTH MKM.

Mike Zabran
Hey, guys, good morning. It's Mike Zabran on for Matt.

John Dunn
Good morning, Mike.

Mike Zabran
Good morning. Maybe just starting on the guide. It sounds like we're signaling a second half weighted year. Maybe just speak to some of the visibility we have into that.

Jon Douyard
Yeah,. I think as we talked about the demand softness that we saw in the second half of the year, particularly as we we've got into Q4, we expect that to continue, which is--through the first half of

the year, which is consistent with what we've talked about previously. I think when you look at the order activity in the business, particularly on the FVS side of the business, I think we did see improvement in the second half of the year of '23 versus the first half, but still remains relatively soft.

We did see strong orders month in January, which is a positive, but we're not at a point yet where we're saying that the market is opening up or turning, at this point. And so, we want to be cautious as we continue here through the first half of the year on how quickly this market opens up. And I think with that, we'll be cautious from a cost perspective, as well. But I think, as you look at the year Q1, as indicated will be roughly breakeven. We'll see a step-up in Q2 and would expect to see improved performance in the second half.

Mike Zabran
Got it. Makes sense. Maybe moving to bookings. So bookings looks a bit better year-over-year, though still relatively tepid compared to prior years. Maybe just speak to what are we hearing from FVS fleets in terms of refresh and expansion demand, this year?

Jon Douyard
I think--I mean some of the dynamics that we've talked about previously with some of our major customers, I think, are still in play. You've got the reorganization going on with FedEx. We've got an EV transition from an Amazon perspective. And so, we continue to have, I'd say, healthy dialogues across our customer base, but those are impacting short-term ordering patterns.

I think the nice part as we look at some of the recent orders is that there isn't as much parcel in there as there has been, historically. And so, when we talk about diversifying the business, I think there is an opportunity there. But we expect, based on the dialogue and interactions we're having with our customers, that there will be an increase in parcel activity here in the coming months. It's just hard to pinpoint exactly when that will be.

Michael Zabran
Okay. Makes sense. Any way to think about how much we need in new bookings this next year in FVS and SV to hit the guide?

Jon Douyard
I think when you look at it, overall, we're ending the year at $400 million of backlog. We've got an $875 million guide. We'll say the FVS business, backlog has been sequentially down for a couple of quarters in a row. Some of that is also extending a bit. So that FVS backlog will likely--some of that will likely push into '25. And so, there is an element of conversion there, but we've got $400 million to $500 million if you just take that backlog number in our sales guidance.

Michael Zabran
Makes sense. That's helpful, Jon. Thank you. Maybe last one for me, for John Dunn, maybe. John, maybe if you could discuss some of the strengths and weaknesses you see on the Shyft platform. And then just hone in on maybe what changes do you plan to make relative to prior leadership, and where might there be continuity?

John Dunn
So we started with the--thank you, Mike, with the first slide saying that our mission hasn't changed, the core business and where we're taking the company. It's stable. We believe in that model, and we're going forward. Some of the strengths that we have is great products, great relationships with our customers.

Where we saw there is opportunities as I went around and interacted with different locations is to do more as a one-shift organization and leverage our strengths, bring expertise from one area into other areas. A clear example we mentioned in the discussion was procurement, bringing together our total spend and really leverage that spend in the market to get better pricing.

Mike Zabran
That makes sense. That’s all for me, guys. Thank you.

Jon Douyard
Thanks, Mike. Operator, next, please.

Operator
Thank you. And the next question comes from Mike Shlisky with D.A. Davidson.

Mike Shlisky
Hey, good morning. Thanks for taking my question. Following up on that last question and your last answer there, John, John Dunn. Do you think that--should we need to make any kind of cost restructuring or choose to the footprint or the headcount going forward? Or is it kind of--do you feel you've got enough volumes to meet the current capacity of the company and there's enough work to go around for all the folks who work at Shyft Group, currently?

John Dunn
What we're seeing is that we're really making sure our plants are agile, so they can run different products and we better leverage that footprint. In the past, we were very singularly focused, so one brand would be built in one facility. And as we see the market kind of fluctuate, there's an opportunity to flex products into other facilities and really fully utilize our installed capacity.

We continue to monitor the demand, and we'll make those adjustments as needed. But a great example was in Bristol, which is our traditional walk-in van plant. As we saw walk-in van demand go down, we flexed truck body production into that plant and have ramped that up, successfully. And we're looking to do more of that sharing of the footprint, going forward.

Mike Shlisky
Okay. Thanks for that. And then I'd be curious to talk about chassis supply. It sounds like when you've got walk-in van work, you've got chassis that you can get to put on it. But I'm more curious about vocational in specialty. Do you have, at this point, a much better feel for your allocations and the timing of deliveries to get those chassis maybe this time versus maybe this time last year? Or any kind of update you can give us there would be appreciated.

John Dunn
To start with the FVS side, we're seeing the chassis coming through. So we don't have that significant issue we had about a year ago. It's getting the customers to really reengage. And as Jon mentioned, especially in parcel, it's been lighter than we had hoped, and we monitor that closely. So the--to be very clear, the limiting factor is in chassis availability. It's really getting the customers to get reengaged.

From the other side of the business, we have the SV side, the chassis are flowing, and we're doing our work on them and getting into dealers. It's also not an issue right now with chassis at a significant level.

Mike Shlisky
Fantastic. Maybe one last one for me. Given the relatively strong free cash flow you've got that's going to continue here in '24 and pretty much no debt, do you have any feel for John, on the ability of Shyft of the desire to expand through M&A to get to more scale in some of these businesses or expanding to some new products on the truck buyer side? Any feel you can get first for M&A given your relative strength versus some other folks who might be a little bit more subscale would be appreciated.

John Dunn
To kind of answer it, the first step is we really want to drive the performance of our core business. And that's the real focus right now to get that operating at the highest level. We need to get Blue Arc launched, and that's why we narrowed the scope to make sure we get that to market as soon as possible and deliver that to customers. In parallel, we do see opportunities where we can do acquisitions, M&A, and we are looking at a couple of opportunities there, but really don't want to lose focus on what we need to do and the urgency around making sure that the core business is running at the right level.

Mike Shlisky
Also, John, when you just work on the Class 3, 4 Blue Arc, any feel for how that might affect your 25 projections for Blue Arc? The previous projections back in 2022 had $500 million plus for sales for that--for the overall line. What do you think with just the Class 3, 4 and the current trajectory of the program, what might that be in 2025 now?

John Dunn
What we're seeing is, we want to get this vehicle to market and really gauge the interest. I think there's been a lot of publications out there about the acceptance rate and the speed of the acceptance rate. So we know we're going to have that strong demand, eventually. Will that timing happen in 2025 like we originally thought? We're watching that closely, but that may be a year or two out beyond that.

So we're being cautious. And I think that's why you see us narrowing the focus, get a product out in the market, understand its reception and not overcommit the company in this EV space. Also, going back to your other question, does make cash available to do acquisitions and strengthen our core business, as well. So we want to make sure we stay balanced as we go through--go forward in the coming years.

Jon Douyard
And I think, Mike, just to add to that, I think as we look at sort of the production ramp-up and the time line, we're probably out a year, right. I mean just a year ago, we were talking about second half production '23 kind of the battery issues and we're talking about later '24. And so, as we look at it, the program is essentially pushed a year from that perspective.

Our plan is to do to a couple of hundred units this year, and then we'll start to see that ramp. And I would expect some of the financial milestones that you year as well, but it gets back to John's point on adoption and acceptance.

From a customer perspective, he hit on it in his prepared remarks, but there is still a lot of enthusiasm about what this product can do and how it stacks up from a competitive standpoint. And so we feel very good about it, and we want to make sure that we get that--the right vehicle on the road.

Mike Shlisky
Great, thanks so much. I appreciate the discussion.

Jon Douyard
Thanks, Mike.

John Dunn
Thanks, Mike**.** Operator.

Operator
Thank you. And the next question comes from Steve Dyer with Craig-Hallum.

Steven Dyer
Thanks, good morning. Most of mine have been answered, at this point. Just--as it relates to Blue Arc a little bit more, how much of the delay do you feel like is attributable just to supply chain and battery issues and things like that? And then how much would you sort of associate with just sort of a little bit softer demand in overall parcel and people sort of moderating their chatter on that in the last six or nine months.

John Dunn
Really, the driver of the delay was the battery. That threw us a curve with Proterra being bought by Volvo, and we had technical issues, candidly, with Proterra as well, all related to the battery. The vehicle is fantastic. When we get the vehicle on the road, the customers use it, a lot of enthusiasm around the vehicle. So our challenge is really to make sure we have a battery that meets all the requirements.

We have a new partner in One, they were the original intended battery supplier for our Class 5. So it wasn't a new supplier to us, it's just pulling them ahead into this Class 3, 4 walk-in van. So there was some work already done, which helps us accelerate. But we're going through that validation to make sure when we put a vehicle out to market, it's going to be at the right quality level and really deliver the performance long-term that we expect and our customers expect.

Steven Dyer
So, given that it sounds like this year is primarily a testing and validation year again, and you still feel like demand is quite solid there?

John Dunn
We do. Meeting with customers, I met with customers, personally, and there's a lot of enthusiasm around the vehicle, excitement to just get it in their hands. But we don't want to rush it. We want to make sure that that battery, the final touches and that performance is at the right level. You get one chance to make sure they're satisfied.

Steven Dyer
Yeah. And then can you just kind of refresh our memory, the Randy Marion order, if there were sort of any time lines or parameters around that when you announced it and sort of when you would expect that to begin shipping?

Jon Douyard

Yes, I think the Randy Marion order when we announced it was a multiyear order. Certainly, as we look at the demand side of things and what our production looks like I think it will be one of the first customers that we deliver we deliver to in the second half of the year.

Steven Dyer
I lost you there at the end, Jon, but we can take that offline. Go ahead.

Jon Douyard
I was just saying they'll be one of the first customers that we delivered to in the second half of the year.

John Dunn
The first group of vehicles, they're blended right in that, and they will give vehicles as soon as we're ready to give it to them.

Steven Dyer
Got you. Okay. Last question for me, just housekeeping. You talked about share repurchases. How many repurchase--shares did you repurchase, I guess, both in Q4 and then also the year if you have that in front of you?

Jon Douyard
Yeah, we didn't repurchase anything in Q4. For the year, we repurchased--

John Dunn
About a million.

Jon Douyard
About 1 million shares.

Steven Dyer
Okay. And was that pretty front half loaded? I'm just trying to recall what you said previously?

Jon Douyard
No, it's mixed between Q1, Q3.

Steven Dyer
Got you. Okay, thanks very much.

Operator
Thank you. And the next question comes from Greg Lewis with BTIG.

Greg Lewis
Hey, thank you, good morning, and thanks for taking my questions. John, in the prepared remarks, you mentioned the ongoing dialogue with Volvo around the battery. I guess when should we think about this being--I mean, I'm finalized and then just thinking about some of the challenges we had over the last year, realizing Volvo is a little bit different of a company than the previous supplier. What are the thoughts around maybe a plan B here just to avoid potential, I don't know, supply chain issues down the road?

John Dunn

Thanks, Greg. What we're looking at and maybe didn't come across as clear as it could have, we're all in right now working with One, that new battery source, they're who we're focused on the validation on. In parallel, we don't want to just walk away from Proterra, which is now Volvo. And so, we're still waiting to understand with Volvo and their intention.

They're going through that reorganization with the Proterra Group, and we expect to know more in the next four to six weeks on how we want to proceed. The key point there is will Volvo invest the resources needed to solve some of the challenges, the issues we had with the battery. But our goal is to be dual source. So we would like them to solve their problem and have that be an option, as well.

Greg Lewis
Okay. Great. And then just, Jon, on the EBITDA guidance for Q1 and full year obviously, Specialty was—did great in Q4. Is there some seasonality why it looks like those EBITDA margins are going to come under pressure in Q1, I guess, before looking at playing with numbers and guidance, before kind of rebounding to that kind of Q4 run rate? Is that the right way to be thinking about that?

Jon Douyard
In SV specifically or broadly?

Greg Lewis
No, just specifically around specialty.

Jon Douyard
Yeah, I mean, I think the SV business had a tremendous year, I think 20% to 20% EBITDA margins for the year, which ramped really sequentially throughout the year, as well.

We've said, historically, that business is more of a high 10s business over the long term, as we think about it and so will--that is what we're expecting as we enter 2024. I think when you look at the total company, volume will be a little bit pressured in the first quarter just based on how demand and the backlog is playing out. And so, there will be sequential declines as well, which put pressure on the Q1 margins before we see volumes return as we move through the year.

Greg Lewis
Okay. Thank you.

Jon Douyard
Thanks, Greg.

Operator
Thank you. This concludes our question and answer session. I would like to turn the floor back over to Randy Wilson for any closing comments.

CONCLUSION

Randy Wilson
Thank you, Operator. I'd like to thank everyone for joining today's call. We look forward to connecting with you over the coming weeks, as the Shyft management team will be hosting investor meetings at the Raymond James Institutional Investor Conference in Orlando on March

4, the NTA Work Truck Week in Indianapolis on March 6 and 7, and the 36th Annual ROTH Capital Conference in Dana Point on March 18th.

Thank you for your interest in the Shyft Group. As always, please reach out if you have any follow-up questions. Have a great day. With that operator, please disconnect the call.

Operator
Thank you. As mentioned the conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.